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EUROPEAN COMMUNITY AGRICULTURAL TRADE PRACTICES

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BEFORE THE

SUBCOMMITTEE ON MONETARY AND FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
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EUROPEAN COMMUNITY AGRICULTURAL TRADE PRACTICES

WEDNESDAY, APRIL 23, 1986

Congress of the United States,
Subcommittee on Monetary and Fiscal Policy
of the Joint Economic Committee,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room SD-106, Dirksen Senate Office Building, Hon. Steven D. Symms (chairman of the subcommittee) presiding.

Present: Senators Symms, Abdnor, D'Amato, and Wilson.

Also present: Robert Tosterud, deputy director; and John Starrels, Joe Cobb, Dale Jahr, and Ron Wimberley, professional staff members.

OPENING STATEMENT OF SENATOR SYMMS, CHAIRMAN

Senator Symms. Good morning. We will call the subcommittee to order.

We are here this morning to discuss some problems with European agricultural trade practices. I will start out the hearing by saying we are delighted Senator D'Amato is here. I think Senator Abdnor will show up. I might just announce to the room that we have a pending vote coming at 10:30 in the Finance Committee which I'm going to have to excuse myself for, so I apologize in advance to the witnesses. If you see me leave it's because we're trying to pass a resolution to go forward with bilateral trade negotiations with the Canadians and we are having a scramble to see whether there are enough votes up there, so I will have to go up to the Finance Committee.

But it's no overstatement to say that the subject of this hearing is important to every American since agriculture is our No. 1 industry. About 22.5 million people work in some phase of agriculture, from growing food and fiber to selling it at the supermarket. Farm assets, totaling slightly over $1 trillion as of January 1, 1984, equal about 70 percent of the capital assets of all manufacturing corporations in the United States. We also have about 2.4 million farms.

It's no news to anyone today that American agriculture is in serious trouble. Net farm income is down 27 percent over the past 4 years. It is estimated that fully one-third of the family farms are in serious financial trouble. The farm crisis has been triggered by several factors: the loss of foreign markets, the recent worldwide recession, and the increasing productivity of other nations' agricultural industries. It is sobering to read that 30 nations that were once food importers are now food exporters.

I believe, and this belief is shared by most agricultural experts, that the key to reviving American agriculture is to be able to increase our exports—our share of the world markets. It is very disturbing to see that our share of the world food market has gone from 60 to 40 percent in the past few years.

Traditionally, farm products have been the strong, steady right arm of American world trade. That strong right arm is growing flabby. Last year agricultural products dropped from 20 to 14 percent of all our exports. Our agricultural exports to the European Economic Community, the subject of this hearing, accordingly declined from $10 billion in 1984 to about $8.5 billion in 1985. In those 2 years our agricultural trade surplus with the EEC has declined from more than $3 billion in 1984 to approximately $1.5 billion in 1985. To put this in perspective, our total trade deficit with the EEC in 1985 was about $20 billion.

Now I'm very glad to have this opportunity to focus on some of the problems we have in exporting our farm products to the European Economic Community. Maybe we should focus on the opportunities instead of the problems, but we have to solve the immediate problem before we can take advantage of the opportunities. The immediate problem—the subject of this hearing—is that subsidized EEC agricultural products have made serious inroads into traditional U.S. markets.

We have a selection of very well-qualified witnesses here today. They are all busy people and I appreciate all of you being here and taking your time to help us come to grips with some of the problems of EEC agricultural subsidies. And we are all looking forward to hearing from you.

As I said, it would be difficult to exaggerate the impacts of the EEC. Last year Senator Helms, chairman of the Senate Agriculture Committee, cited Department of Agriculture estimates that EEC agricultural subsidies are costing us $5 to $6 billion in agricultural business.

Former Secretary of Agriculture Block, in July 1985, noted that prior to the EEC's Common Agricultural Policy, the United States had half of the world's flour market. Last year our share was down to 15 percent. In the meantime, the EEC share climbed from 20 to 55 percent.

USDA officials have cited figures as high as $48 million in lost sales of oranges and lemons to the EEC because of preferential tariffs for Mediterranean basin countries. Other data show that citrus exports to the EEC have declined about 40 percent since 1981.

I know our wheat farmers are worried about the drop in their exports. From last October through February, exports were down by 16 percent. This may be partly due to the European response to the farm bill's export orientation and partly because the bill's export provisions haven't been fully felt yet. In either case, it's a matter of serious concern to all of us. The entry of Spain and Portugal into the EEC makes matters worse. I am told that we have lost, or will lose, 400 million pounds of grain sales to Portugal. It is estimated that Spanish grain production, encouraged by EEC subsidies, will swell world grain stocks by 11 million metric tons.

It appears these subsidies will continue. The EEC is prepared to subsidize two-thirds of the cost of wheat exports. Michael Jopling, Britain's Minister of Agriculture and Fisheries says: "I believe European countries have the right to protect their agriculture." They do have the right, but they can't be allowed to exercise it at our expense, and that's where I think we have to come up with some sound answers to some of there problems.

Our red-meat industry hasn't yet been hurt badly as a result of EEC policies. I think the dairy buyout has taken care of that problem as far as doing damage to the red-meat industry, and we don't need any help from anyone else. The United States has a 10,000 metric ton levy-free quota of high quality beef to the EEC. However, because of the price considerations, late quota openings and slow licensing, we have never been able to fill that quota. The threat of a third country directive, which might be imposed in the spring of 1987, could kill America's $125 million market in red meat if the EEC refuses to accept U.S. inspections and places unnecessary restrictions on slaughtering and packing procedures. An equal threat is the possibility of banning all growth hormones. If this happens, we could lose our entire market. The EEC reportedly has a million pounds of meat in government storage. Obviously, this has a depressing effect on prices.

Outlined here are just a few of the concerns we have with EEC agricultural policies. These concerns must be addressed. However, as serious as these concerns are, they must not be allowed to further disrupt our relations. For all my disagreement with the unfair competitive practices of the EEC, the United States still transacts a large volume of agricultural sales with the EEC. This must be maintained. At the same time, in light of our flagging export sales, we need to draw the line with our trading partners to signal our determination to end unfair commercial practices, not only in our markets but in the markets of our competitors as well. As a member of the Senate Finance Committee, I will insist on a fairer trade system for our agricultural sector.

I am committed to recapturing our overseas agricultural markets in the face of unfair and subsidized foreign competition and I hope that this hearing can make a contribution to that end.

I note that Senator Abdnor is here. We're glad to have him here now at this point, and also I think Senator D'Amato has an opening statement.

Senator D'Amato. Mr. Chairman, I'm going to ask that my statement be placed in the record in its entirety, but let me commend you for holding this hearing.

[The written opening statement of Senator D'Amato follows:]

WRITTEN OPENING STATEMENT OF SENATOR D'AMATO

MR. CHAIRMAN, I COMMEND YOU FOR HOLDING THIS TIMELY AND IMPORTANT HEARING THIS MORNING ON THE EUROPEAN COMMUNITY'S AGRICULTURAL TRADE PRACTICES. THE IMPORTANCE OF THIS ISSUE IS HEIGHTENED BY THE RECENT ADMISSION OF SPAIN AND PORTUGAL INTO THE ECONOMIC COMMUNIITY (EC).

AS A RESULT OF THEIR RECENT ADMISSION TO THE E.C., PORTUGAL AND SPAIN ARE NOW ACCORDED SPECIAL TREATMENT UNDER THE GUISE OF THE COMMON AGRICULTURAL POLICY -- PROTECTIONIST POLICIES PREVENTING COMPETITIVE PRICING OF FARM PRODUCTS BETWEEN E.C. MEMBERS AND NON-E.C. MEMBERS. THE TOTAL OF LOST U.S. AGRICULTURAL SALES TO PORTUGAL AND SPAIN WILL BE $1 BILLION A YEAR.

THE UNITED STATES CAN NO LONGER AFFORD TO ACCEPT AGRICULTURAL EXPORT LOSSES OF THIS MAGNITUDE. AGRICULTURAL PRODUCTS PRESENTLY COMPRISE LESS THAN 14% OF TOTAL U.S. EXPORTS; THIS REPRESENTS THE LOWEST LEVEL SINCE 1940. TOTAL FARM PRODUCT EXPORTS FOR 1986 ARE ESTIMATED AT $28 BILLION, DOWN FROM $44 BILLION IN 1981. WITH IMPORTS PROJECTED AT $21 BILLION, THE U.S. SURPLUS WILL BE A MERE $7 BILLION. THIS SURPLUS REDUCTION SHARPLY WORSENS OUR OVERALL U.S. TRADE DEFICIT WHICH REACHED $150 BILLION FOR 1985.

MR. CHAIRMAN, AMERICA NEEDS ITS EXPORT MARKETS. THEIR IMPORTANCE IS MADE CLEAR BY LEGISLATION PRESENTLY PENDING IN THE CONGRESS, WHICH HAS THE PRESIDENT'S SUPPORT, TO CREATE A $300 MILLION "WAR CHEST" TO PROMOTE U.S. EXPORTS. THE TENSION BETWEEN THE U.S. AND THE COMMON MARKET IS NOT WANING. I URGE OUR NEGOTIATORS TO INCREASE THE PRESSURE ON OUR EUROPEAN TRADING PARTNERS; OUR FARMERS NEED OUR ASSISTANCE.

THANK YOU, MR. CHAIRMAN.

Senator D'AMATO. The timeliness of this hearing certainly should be underscored, and let me simply say that I am more than concerned with the actions that we see taking place in the European Economic Community as they relate particularly to foodstuffs. I believe the time has come for us to take a tough position.

I think the initial reaction by the administration was correct. To have a situation where our food products are now going to be placed at an economic disadvantage and our exports are going to be restricted goes beyond tolerable limits. People say they don't want trade wars, but yet it's always the United States that seems to be taking the short end of this so-called free trade policy.

Free trade has to be based on the underlying assumption of fairness. I don't see the fairness as it relates to our suppliers, our dealers. They see it as it relates to our markets that they want open—our markets—but yet I see them close down their markets.

So, Mr. Chairman, I commend you for holding this hearing because obviously we cannot continue along this path. Thank you, Mr. Chairman.

Senator SYMMS. Thank you very much, Senator D'Amato. Senator Abdnor.

OPENING STATEMENT OF SENATOR ABDNOR

Senator ABDNOR. Thank you, Mr. Chairman. I, too, want to commend you for this very timely hearing. In many ways we wish we could have done something about this a long time ago, but it's never been more important than right now.

In 1981 American agricultural exports climbed to a record level of $44 billion. Since that time the American farmer has been put through an economic wringer of high interest rates, an overvalued domestic currency, excess production, and falling land values. According to current USDA estimates, this year's farm exports are projected to total no more than $28 billion, and falling. Mismanaged American foreign policies, most particularly the grain embargo, combined with European agricultural subsidies have resulted in the loss of some of our world export markets, both in Europe and within the developing world.

For the last 10 years American agricultural policy has revolved around maintaining high commodity prices and reducing acreage production. And while we have been providing our competitors with a de facto price umbrella, the European Community has responded by subsidizing their exports and attempting to displace our goods in foreign markets. Because of the dramatic decline in farm exports, the Food and Security Act of 1985 was written with the intent of changing the course of the Government's farm policies. Better financing, export subsidies, and lower loan rates were all measures designed to improve the competitive position of American agricultural products in world markets. In response to the anticipated effectiveness of these policies, the Europeans have already had to raise their value added tax, supplementing their export war chest by an additional billion dollars. Since the signing of the Treaty of Rome the European Community has used a combination of farm support policies which include high domestic prices, export subsidies and import tariffs in order to keep a significant portion of their population on the land. While we have attempted to implement responsible policies, the Europeans have consistently bowed to domestic policies, sometimes at the expense of undercutting our export markets. I am convinced, Mr. Chairman, that the high debt-to-asset ratios, falling land values, and the low incomes that plague the American farmer can be directly traced to the unfair trade practices of the European Economic Community. And compounding the problem, the entry of Portugal and Spain into the Community threatens to deny the American farmer yet an additional $1 billion in farm export sales.

One of the significant incidents that's been occurring lately is the import of live cattle from Canada, Mr. Chairman, and part of that is because if you check with the European Economic Community, more chilled and processed beef is coming into Canada, so the Canadian farmers are sending theirs into America. I think something has to be done about it.

I read in the paper the other day where we are encouraging the World Bank to loan more money to Argentina so they can drop their export tax they apparently have on their grain exports going out of that country, I guess to make them more competitive with American goods again. Now this is absolutely ridiculous. It's about time the State Department, Treasury, and everyone in this country start thinking about our own farmers who are going into bankruptcy because they can't keep their head above water because of these stupid practices. And I don't know about anybody else, but I'm getting sick and tired of seeing that kind of competition. I go home and I'm hit over the head about all the oats that are still coming in. Only a year ago we were going to buy $2 wheat from Argentina and bring it up here and now farmers are supposed to compete with that kind of competition.

I think this is a timely meeting and I think it's high time we take a good look at this. I'd just like to remind the members of the European Community that they cannot continue to have it both ways. They cannot continue to protect domestic markets and yet expand through direct subsidies their export markets. This double standard can only in the long run be harmful to both their agricultural community and to ours.

So I'm just pleased to announce that the Joint Economic Committee, incidentally, will be publishing major documents later this year focusing on our trade with Japan and Europe's Common Agricultural Policy, which not only hurts our American farm exports but it also costs the European consumers billions of dollars. I'm sure these groups of studies will make positive contributions in improving our trade issue.

Thank you, Mr. Chairman.

Senator SYMMS. Thank you much, Senator Abdnor, for an excellent statement. I would have to observe, listening to your statement, that I have served in the Congress with you since 1973 and there is no stronger voice for Americian agriculture than Jim Abdnor in the U.S. House or Senate. As a farmer myself—and I know you're a farmer—I appreciate your strong voice and concern and I think what you said about the World Bank certainly is true. I know you're a sponsor of my FAIR bill, which tries to address the problem of the U.S. taxpayers, the few farmers that are still taxpayers, and the fact that they have to finance their own competition. You know, competitive trade is one thing, but financing your competition is another thing.

We have a very distinguished panel this morning and I think what I would like to do is hear from Mr. Tom Kay, Administrator of FAS; then Suzanne Early, Assistant U.S. Trade Representative; Mr. Dwayne Andreas, chairman and CEO, Archer Daniels Midland Co.; and then Jack Hay of the National Association of Wheat Growers.

What I'd like to do is have the witnesses make their statements, and then we could have questions for the entire panel, if that suits everyone. Is there anyone here who may have to get out of the room or catch a plane, or are we all OK?

Please go right ahead, Mr. Kay.

STATEMENT OF THOMAS O. KAY, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JOSEPH O'MARA, ASSISTANT ADMINISTRATOR, TRADE POLICY

Mr. **Kay**. Thank you, Mr. Chairman. I am joined today by Mr. Joe O'Mara, who is the Assistant Administrator for Trade Policy in the Foreign Agricultural Service.

I appreciate the opportunity to discuss with you and your committee the trade policies of the European Community, and specifically the impact these policies have on the United States.

Because the European Community is at the same time the United States' largest market and its leading competitor in world trade, the course of EC agriculture is of prime importance to us.

Last year, U.S. agricultural exports to the EC totaled $5.2 billion, while the European Community sold us 3.6 billion dollars' worth of agricultural products.

The biggest selling U.S. items were soybeans, $1.3 billion; soybean oilcake, $355 million; corn gluten feed, $439 million; cotton at $259 million; corn at $234 million; and tobacco and products, $508 million.

EC sales consisted principally of wine and other alcoholic beverages worth $1.3 billion.

Senator **Symms**. How much of that had methanol in it?

Mr. **Kay**. Some from Italy did, Senator.

Senator **Symms**. Do you think that's corrected?

Mr. **Kay**. Evidently. The Alcohol and Tax Unit at the Department of the Treasury has now lifted the embargo provided there can be a confirmation by the Italians that it does not contain methyl alcohol.

Senator **Symms**. It's only the Italian wine that this has been discovered in up to now?

Mr. **Kay**. Yes, sir.

Senator **Symms**. Thank you.

Mr. **Kay**. EC sales consisted principally of wine and other alcoholic beverages worth $1.3 billion, or about the same as U.S. exports of soybeans to the European Economic Community. Other major EC exports were cheese, ham, and nursery products.

Total U.S.-EC trade, which includes nonagricultural products, showed the United States with a $20.9 billion trade deficit in 1985. We exported 43.6 billion dollars' worth of products to the EC and imported 64.5 billion dollars' worth of EC goods.

While the United States is still the EC's leading supplier of farm products—it provides nearly a third of the Community's agricultural imports—U.S. sales have dropped steadily over the last 3 years from a high of $9.1 billion in 1981. Sluggishness in the European economy and the strong dollar have been partly responsible for the decline. However, EC farm policies have also played a major role.

Under its common agricultural policy, better known as CAP, the European Community employs a system of high internal price supports, variable levies and export subsidies which have combined to dramatically increase both the Community's agricultural self-sufficiency and exports, while reducing imports from the United States and other suppliers.

To illustrate, in the case of grains, the CAP has enabled the European Community to move from being a net importer of 20 million tons in 1970 to a net exporter of nearly 20 million tons of wheat last year. This 40-million-ton swing is largely the result of CAP production incentives and export subsidies.

It's interesting to note too, Senator, that the 40-million-ton swing is about the equivalent of that which we have in storage at the present time in the United States.

Similar shifts have taken place in other commodities. The European Community has gone from being a net importer of poultry in the mid-1960's to the world's largest exporter, with over 40 percent of the world market.

The Community also is the world's largest egg exporter, selling more than 2.6 billion eggs outside the Community in 1984. Prior to the inception of the common agricultural policy for eggs in 1967, the European Community was the world's larger importer.

The European Community, a net importer of beef and veal up until 1973-74, is now the world's largest exporter, ahead of Australia and Argentina. The European Community appropriated over $1.1 billion for beef and veal export subsidies in 1984.

The European Community also owns the top spot in dairy exporting, a position which it has maintained over the years through the use of export subsidies. The total export subsidy outlay for dairy products amounted to $1.5 billion in 1984.

The European Community also has been a net exporter of sugar since 1977. During the past marketing year it captured 15.5 percent of the world sugar market and ranked second only to Cuba.

If present trends continue, the European Community may become the world's No. 1 agricultural exporter in value terms as early as this calendar year.

In order to counter the unfair competition of subsidizing exporters such as the EC in the international marketplace, USDA last year launched the Export Enhancement Program. Under this program, as amended by the farm bill of 1985, $1 billion in commodities owned by USDA's Commodity Credit Corporation will be provided over the next 3 years as bonuses to exporters to help make agricultural products competitive in selected markets.

As of April 17, USDA had announced 30 export enhancement initiatives under this program. These initiatives covered more than 9.3 million tons of U.S. crop products, 500 million table eggs, 29,000 head of dairy cattle, and 23,000 tons of frozen poultry. Fifteen countries are presently involved.

The European Community's CAP poses many trade problems for the United States. These problems were the focal point of the meetings Secretary Lyng and Special Trade Representative Clayton Yeutter held last week with the European Community's Commissioner of Agriculture Frans Andriessen and Commissioner for External Affairs Willi DeClercq.

In recent years, the CAP's high, essentially open-ended support prices for most commodities have encouraged large surpluses in EC agricultural production during a period of chronic world surpluses and sagging world demand. The EC has then used export subsidies to dump its surpluses, causing serious damage to U.S. export earnings in third country markets.

A case in point are EC wheat subsidies, which have enabled the EC to export increasing quantities of wheat onto a declining world market. The effect of these subsidies has been to significantly increase the EC's share of the world export market, from 8 percent in the early 1970's to 16 percent during the 1984–85 crop year.

While the United States has borne virtually all of the sales losses as a result of the EC's use of subsidies, the price impact of these subsidies has been shared by all wheat exporting countries. EC export subsidies have significantly depressed world grain prices. In fact, USDA economists estimate that the United States has lost about $2 billion in grain export earnings as a result of EC grain subsidies.

U.S. officials have held many discussions with the EC about the unfairness of these export subsidies over the years, with little result. Consequently, President Reagan has indicated that his administration will intensify efforts to combat such unfair trade practices.

Late last year, the United States announced its intention to undertake a formal complaint in the General Agreement on Tariffs and Trade Subsidies Code Committee on EC export subsidies for wheat. Last month, informal consultations were held with the European Community in Brussels prior to formal procedures under the GATT. The consultations were an opportunity for the United States to discuss on a practical level the problems we have with EC grain export policies. The U.S. delegation emphasized that the United States has acted responsibly in the face of declining world wheat trade, while the EC has not taken steps to alleviate its oversupply situation. In view of the outcome of the recent meeting, the United States will continue to consult informally with the EC in the short term.

Another very serious problem which we face in selling to the EC is that access to the EC market for most agricultural products is severely restricted, primarily through the use of variable levies. Moreover, the Community is proposing new measures which, if implemented, would seriously affect imports of U.S. farm products. The most significant of these are the measures associated with the enlargement of the Community to include Spain and Portugal.

The integration of the Spanish and Portugese agricultural systems into the European Community's CAP poses some of the most serious problems for U.S. agriculture because these countries together represent a $1.6 billion market for U.S. farmers.

The United States likely will lose virtually all of its grain market in Spain and Portugal after the European Community applies its variable levy system to those countries. This market was recently valued at $900 million.

We are also extremely concerned about the fact that when the European Community announced its proposed new tariff schedule for the enlarged Community, it left blank the tariffs for 65 agricultural items, including such key items as oilseeds, oilcakes and meals, vegetable oils, non-grain-feed ingredients, tobacco, and wine. EC imports of these items from the United States were valued at $4.2 billion in 1984, or two-thirds of the total U.S. agricultural exports to the Community.

The blanks in the European Community's proposed tariff schedule are a possible indication that the EC may once again be considering plans to restrict imports of oilseeds and products, non-grain-feed ingredients, and other agricultural commodities. The Europeans probably would like to close what they regard as "loopholes" in the EC agricultural trade regime represented by bindings previously negotiated and paid for by the United States.

The EC will claim that the compensation owed U.S. farmers for such restrictions will be covered by the reduction in Spanish and Portuguese industrial tariffs when those two countries adopt the European Community's tariff schedule. However, the United States rejects this so-called "credit" concept for two fundamental reasons.

First, it implies that the previous concessions we received through negotiations could be withdrawn and the compensation for that withdrawal dictated, not negotiated, by the European Community.

Second, the European Community asserts that our industrial trade with Spain and Portugal will benefit from lower duties. However, this ignores the fact that there will be no duties on industrial imports from other EC members. Our experience with past EC enlargements indicates that any benefits from lower tariffs for third country suppliers usually are more than offset by the fact that duties are totally eliminated for members of the Community—and it is these countries who consequently reap the big trade benefits.

While the United States has always supported the accession of Spain and Portugal to the European Community, we have told EC officials many times that U.S. farmers should not and would not be made to pay the costs of this enlargement.

To that end, we have informed EC officials that as of July 1, we will increase tariffs on a number of EC products if the European Community does not compensate us for losses caused by the higher tariffs on our corn and sorghum exports to Spain. Such compensation is required by the General Agreement on Tariffs and Trade.

We have also informed the European Community that we will impose quotas and higher tariffs on a number of European Community products unless the limits now scheduled to be imposed on Portugal's purchases of oilseeds, oilseed products and grain are rescinded by May 1.

U.S. exports of oilseeds to Portugal were valued at $132 million in 1985 and we sold them another $255 million in grains. The United States has been the major supplier of grains to Portugal, with over a 95-percent market share in recent years, due in part to the availability of GSM-102 export credit guarantees.

There was no resolution of the accession issue at the meeting of the four ministers in Paris last weekend. As disappointing as that is, I think the meeting was helpful. It should now be crystal clear to the EC that the United States intends to carry out the policy outlined by the President on March 31. There should no longer be any doubt that the United States will defend its trade interest and our legitimate GATT rights. I do believe they now understand that the United States will not allow measures covering some $1 billion in trade to be in place now while we await the outcome of a lengthy negotiating process.

You have discussed in your statement, Senator Abdnor, as well as the chairman, other enlargement issues such as the red meat directive and the issue concerning nontherapeutic hormones.

I will say that the EC continues to ignore a GATT panel recommendation that the EC reduce the level of its tariff perferences on fresh oranges and lemons from the Mediterranean region because they have nullified or impaired U.S. MFN bindings with the EC. In response to the lack of progress on this issue, the United States increased its duty on EC pasta last year in an attempt to bring the matter to a head. The EC retaliated by raising its duties on walnuts and lemons and increasing its export subsidies on pasta. Both sides have continued formal efforts to resolve the issue.

The EC has also retaliated against U.S. import quotas on semifinished steel products imposed last year by setting quantitative limits on imports of U.S. tallow, fertilizer and coated paper. U.S. shipments of tallow to the EC are limited to an annual rate of 107,000 metric tons from now until 1988. I must point out that these restrictions do not apply to U.S. tallow exports to Spain and Portugal. EC-10 imports of tallow from the United States over the last 5 years have averaged 154,000 tons and amount to about $65 million in trade annually.

The trade problems we are currently having with the European Community point up the need to move ahead aggressively with the reform and modernization of the General Agreement on Tariffs and Trade in the upcoming round of multilateral trade negotiations.

It is essential to the orderly conduct of trade to write more effective GATT rules for controlling unfair trade practices such as export subsidies, to improve access to foreign markets, and to impose greater discipline on the use of food, plant and animal health restrictions. The administration will actively pursue these goals in the new trade round.

U.S. trade policy basically rests on four pillars: the need to move the world to a more free and open trading system; the intent to respond aggressively to unfair trading practices of other nations; the need to improve the "rules of the road" for international trade, specifically through the GATT, in order to ensure that there is a "level playing field" on which U.S. exporters can participate in the world marketplace; and finally, the recognition that fiscal and monetary policies play an extremely influential role in trade flows here and abroad.

Within this trade policy framework, the United States will continue to work on a bilateral basis with EC officials, and also in multilateral groups, to resolve the trade policy issue we currently have with the European Community.

That concludes my statement, Mr. Chairman, and I will be happy to answer further questions at the end of the panel.

Senator ABDNOR. Thank you, Mr. Kay, for that fine statement. I commend you. I'm glad to see someone speaking out so strongly. That was one of the stronger statements I've heard coming from the administration and I'm pleased to see you speaking out.

While you were testifying one of our more active members of this committee, Senator Wilson, has come by and we're happy to have you with us, Senator. Do you want to make a statement?

OPENING STATEMENT OF SENATOR WILSON

Senator WILSON. Thank you very much, Mr. Chairman. I will first echo your comment about Mr. Kay's statement.

I am delighted that this hearing has been convened. I commend you and Chairman Symms and I think that the timing could hardly be better, since this trade dispute, unfortunately, looks like it could erupt in to a full-scale trade war very shortly, unless there is the kind of response necessary to avert it from the EC.

Last Thursday, the Senate unanimously passed a resolution which urges the President to use to the fullest extent possible his authority to retaliate against the new restrictions on grains and oilseed imports to spain and Portugal, unless the United States receives prompt and complete compensation for any loss of trade resulting from the enlargement of the European Community. I hope that this resolution strengthened the hand of Secretary Lyng and Ambassador Yeutter as they made one final attempt last weekend to resolve this dispute with the Europeans. I am sure our adminsitration witnesses this morning will provide us with the latest developments.

By way of background, some of you may recall the remarks that I made on this very subject of EC enlargement some 2 months ago, before the new import restrictions on grains and soybeans in Spain and Portugal went into effect March 1.

Twenty of my colleagues, including Senator Abdnor and Senator Symms, subsequently joined me in a letter to the President urging him to pursue to the fullest extent possible the American right to compensation under the rules of international trade by preparing and using a comprehensive list of items for retaliation against the European Community.

I am encouraged that on March 31, the President announced such a list of retaliatory commodities, which includes imports of European wine, cheese, mineral waters, port, and cakes. By announcing these possible measures, the President has elected to demonstrate that the United States will no longer stand idly by and let the American farmer pay the price for the enlargement of the European Community.

Regrettably, in response to our assertion of rights expressly provided for under GATT, the EC has again targeted many American agricultural commodities for counter-retaliation. This time, many of California's products, such as wine, prunes, fruit juices and California's $185 million worth of almond exports to Europe, are on the EC's hit list.

Although California producers ask nothing more than a fair market in which to compete, once again, they might be the victims of unfair agricultural trade practices by other governments. And it is California, again, which might be made to pay the price to defend American grain and soybean exports.

So many of you here today may wonder why a Senator from California feels as strongly as I do about the enlargement of the European Community which, for now, harms our grain and soybean producers. Well, my reasoning is, I think, clear and simple. I have a concern and sympathy for the producers of those grains who are now experiencing the same kind of exclusionary tactics that American citrus growers have been experiencing. I think the time has come for us to make common cause. Too often in the past we have been divided.

Ultimately, the enlargement of the Community will affect all sectors of American agriculture. Thanks to the subsides of the common agricultural policy, Spain and Portugal may become the "Californias of Europe," producing and exporting abundant supplies of subsidized fruits, nuts, and vegetables. And as those subsidies continue to flow, Spain and Portugal will threaten to strip California exporters of their hard-earned markets in Europe and elsewhere abroad, in the same way that American grain and soybean exporters are currently losing their European markets.

In my view, all of American agriculture must unite behind this issue. We can't continue to prosper by being divided. The American Soybean Association in the past has opposed what they then thought to be protectionism, which was really the assertion of the right of access for American producers in a different segment of agriculture. We can no longer afford to divide American agriculture, because as we do so, we allow the EC to conquer it.

We must look instead ahead to the 10 years that it will take for Spain and Portugal to fully intergrate their agriculture with the EC. Unless American agriculture stands united now, from the outset, to defend the legitimate rights of every American farmer in this process, agricultural producers and exporters of numerous commodities may lose their export markets forever.

So, Mr. Chairman, I welcome this hearing and I commend you for convening and conducting it and I look forward to hearing from the witnesses, and to their testimony on what is not just a timely issue but a critical issue. Thank you.

Senator **Abdnor** [presiding]. Well, thank you for that very fine statement, Senator Wilson.

I also am going to ask unanimous consent that we be allowed to place in the record a statement of Mr. Vicini of the CBI Sugar Producers and, with no objection, that will be made a part of the record.

[The statement of Mr. Vicini follows:]

STATEMENT OF FELIPE VICINI
OF THE THE CBI SUGAR PRODUCERS

SUGAR POLICIES OF THE EUROPEAN COMMUNITY

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to submit testimony on behalf of the Caribbean Basin Initiative Sugar Group on the impact of the sugar policies of the European Community on our economies. My name is Felipe Vicini and I am a sugar producer in the Dominican Republic. The CBI Sugar Group is also composed of producers in Barbados, Belize, Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Panama, St.-Kitts, and Trinidad and Tobago.

Mr. Chairman, it is no exaggeration to state that sugar is vital to the economic well-being of the CBI Sugar Group countries. Sugar is a major cash crop and a major source of foreign exchange earnings. Unfortunately for us, a number of trends in the world sugar system have dramatically affected our ability to both export sugar to traditional markets and to secure a fair return on our exports. Each of these trends can in some way be related to the sugar policies of the European Community (EC).

The Challenge Facing the CBI Sugar Producers

The CBI sugar producers today face four interrelated challenges. The first is the focal point of this hearing, namely EC sugar policies that have altered traditional market shares and reduced world sugar prices. The second challenge is the U.S. sugar program, and more specifically the 23 percent reduction in the U.S. sugar quota that resulted from implementation of the sugar provisions of the 1985 Food Security Act. The third challenge is the development of sugar substitutes, in particular high fructose corn syrup, which has dramatically reduced the demand for sugar. And the fourth is the limitation on our ability to diversify from sugar production to offset the major foreign exchange losses to our economies from reduced sugar exports.

I would like to focus my remarks today on the challenge we face because of EC sugar policies. Yet, I cannot do this without at the same time highlighting those other challenges, a number of which are the outgrowth of these policies.

The EC Sugar Policies: Impact on the Caribbean Basin Producers

Before discussing the impact of EC sugar policies on the Caribbean sugar producers, I would first like to provide a brief sketch of the system in which we are operating. I use the word system rather than market precisely because there is no market in the true sense of the word.

The world sugar system has a number of components, of which the European Community sugar program is but one. That system also includes each individual country's domestic production/consumption system, the U.S. market, the Soviet-East European system, and the residual world sugar market. The domestic production/consumption system refers to the fact that 71 percent of sugar produced is sold and either consumed or stockpiled in the countries within which it is produced. Consequently, only 29 percent is available for world trade. Within this remaining market, approximately one-third is sold in sheltered markets in the United States, the EC, and the Soviet Union and its Eastern European satellites.

Interestingly enough, the European Community was not always a significant player in the world sugar market. Ten years ago, the EC was a net importer of sugar. Today, the European Community is the dominant sugar exporter with exports of approximately 27 percent of free market sales in 1984.

If the EC had achieved this dominant position because of a natural comparative advantage in sugar production, we would have little dispute with them today. Unfortunately, this is not the case. The EC's position of dominance has been constructed on an extensive system of domestic price supports and export subsidies. The implications of this system for the world sugar market, and for our economies in particular, have been devastating.

The sugar policies of the EC have had two principal economic effects on the world sugar market. First, they have altered the traditional market shares of the major producers. Second, they have driven down the price of sugar.

The extremely high price structure in the EC domestic market has led to production in excess of demand requirements. To avoid holding the large surpluses that result, the EC provides export subsidies to move sugar into world markets. In fact, during the 1983/84 year, it is estimated that the EC supported exports of approximately 3 million tons of sugar (of total sales of 5 million tons) with subsidies totalling $1 billion. Through these policies, the EC has increased its share of what is known as the free sugar market from zero in 1975 to approximately 27 percent in 1984.

The excess of world sugar stocks in combination with EC subsidization policies has also resulted in prices falling dramatically in those markets where prices are not controlled. In fact, because of these trends, world sugar prices had fallen as low as 2.5 cents per pound. Even at the current rate of 8 cents per pound, we cannot meet our minimum production costs, despite the fact that we have one of the lowest costs of production in the world. Because of this, it is impossible for us to market our sugar without incurring substantial losses.

EC sugar policies have had more than a direct impact on our economies and the economies of other sugar producers. At the beginning of my testimony, I discussed the four challenges we face. There is no doubt in my mind that the U.S. sugar program, and the competition from sugar substitutes, can be linked as well to EC sugar policies.

The dramatic reduction in world sugar prices that resulted from the EC entry into the market precipitated the emergence of a sugar system in the United States designed to protect the domestic industry from the vagaries of dramatic price fluctuations. That system is characterized by government-supported prices and a system of import quotas that exclude sugar that, if imported, would drive the domestic price below legislatively-determined levels. High domestic sugar prices facilitated the emergence of the less-expensive sugar substitutes, such as high fructose syrup.

These two trends have been extremely damaging to our economy. In 1981, sugar was our principal export to the U.S. market (with the exception of petroleum which was exported largely from one country, Trinidad and Tobago). The value of our sugar exports was approximately $630 million that year. By 1985, as a result of the U.S. sugar quota program and the introduction of sugar substitutes, sugar exports had fallen to $275 million. This is a drop of $355 million. And this trend of declining exports is expected to continue if the present policies remain intact.

What will this mean for the CBI Sugar Group countries? Clearly, it means that the promises of the President's Caribbean Basin Initiative stand a good chance of not being fulfilled. While our countries are attempting to diversify, this should not be viewed as a panacea. A draft report of a study prepared by ICF Incorporated, entitled "The United States Sugar Quotas and the Caribbean Basin Initiative," estimates that if the current trends continue, in 1990 an additional 120,000 jobs will be lost (as compared to 1984 levels). Yet, we do not have to wait until 1990 to feel the impact of the trends in sugar. Sugar employment in Belize has fallen by 50 percent since 1984. One of that nation's two sugar mills has closed. And in the Dominican Republic, sugar-industry employment is down by 16 percent as well. These statistics barely scratch the surface of the economic devastation we will continue to face if current sugar policies are continued.

Unfortunately, Mr. Chairman, addressing the issue of EC sugar policies alone will not resolve each of these challenges. But it would be a start. To actually address the sugar challenges facing the CBI economies, the issue of access to the U.S. market must be considered and resolved. Within the context of the current sugar program, we anticipate that by 1990, the CBI will be exporting no sugar to the U.S. market. This would be disastrous. Some type of mechanism to assure increased access to the U.S. market must be part of any long term effort to help the CBI address its economic troubles.

Mr. Chairman, this type of commitment to address the sugar problem in its entirety would signal to us that the United States was committed to a policy of free and fair trade for all products and all countries. It would give credibility to U.S. efforts to liberalize trade through a new round of multilateral trade negotiations. It would signal that the developed countries were willing to make the same kinds of tough decisions that we are forced to make to rectify our economic troubles. Finally, and most practically, it would enable us to get on with the business of producing and marketing a product in which we do indeed have a comparative advantage and which we have been producing for hundreds of years.

Thank you.

Senator **Abdnor**. Ms. Early, please proceed.

STATEMENT OF SUZANNE EARLY, ASSISTANT U.S. TRADE REPRESENTATIVE

Ms. **Early**. Thank you, Mr. Chairman.

I want to thank the subcommittee for the opportunity to appear before you today to discuss the European Community's agricultural trade practices. Let me begin by noting that it is truly incredible that in the past 25 years the European Community has moved from a net importer of such commodities as wheat, feedgrains, sugar, and beef to a position of net exporter. In fact, in beef, the Community is now the world's largest exporter. In sugar and wheat, the Community is the world's second and third largest exporter.

These production and export advances would not have been possible were it not for the great incentives that have been given to EC farmers to produce these products. Nor would the European Community's export position have been secured without the use of export subsidies because in all of these products the Community's internal price is higher than world price levels.

In my office, we are principally concerned with protecting U.S. rights under trade agreements and negotiating trade agreements with foreign countries. In this capacity and working with the U.S. Department of Agriculture and other agencies, we have challenged several EC trade practices in the General Agreement on Tariffs and Trade, GATT. These disputes involve two that I would point out: EC processing subsidies on canned fruit and EC tariff preferences on citrus. We have also challenged their practices on wheat flour export subsidies and on pasta export subsidies. More recently at the President's direction, we have held high-level consultations with the EC on export subsidies on wheat, a complaint we are prepared to pursue further in GATT as necessary.

We have had mixed results with these cases. On canned fruit and on citrus, GATT panels ruled in favor of the U.S. position. Last December, the EC agreed to limit the processing subsidy on canned fruit settling our dispute on that item. We are still in the process of seeking a negotiated settlement on citrus.

The wheat flour and pasta subsidy disputes are still not resolved. We were deeply troubled by the fact that the GATT panel on wheat flour could not make a decision as to whether the EC had violated the rules by taking more than an equitable share of world trade. The panel reached factual conclusions clearly supporting the U.S. position. Yet, despite this, the panel refused to make the legal conclusions dictated by the facts.

On pasta, a GATT panel found that pasta was not a "primary" product and could not, therefore, benefit from export subsidies. The European Community and others, however, maintained that it was the Durum wheat content of pasta that was effectively being subsidized, not the processed product, pasta. They have refused to allow the panel report to be adopted. Thus, the panel report has been left in limbo internationally.

As you can see from these cases on export subsidies, the GATT rules are in urgent need of repair. One of our principal aims in a new round of multilateral trade negotiations will be to strengthen GATT rules on export subsidies for agricultural products. For our part, we would like to see an absolute prohibition on export subsidies with only very limited exceptions such as for food aid donations. We would also like to see the rules on access strengthened so that the principle of comparative advantage would have a better opportunity to work in agricultural markets. To date, the European Community has objected to any fundamental change in the rules governing agricultural trade. They would prefer to simply clarify existing rules.

Let me turn to a more immediate trade problem. We are now engaged in one of the biggest trade disputes we have ever had with the European Community. It concerns the enlargement of the Community to include Spain and Portugal. About $1 billion in U.S. agricultural trade will be involved, a good chunk of which is in jeopardy. The measures affecting our trade are complex and they are different in Spain than those in Portugal.

In Portugal, the Community has put into place quotas on soybean oil and meal. The EC argues that these measures are only temporary and will not hurt U.S. exports. Our view is that the import quotas are illegal under the GATT. We ask what is the basis for the quotas if they are to be nonrestrictive. We simply don't trust that the quotas will be unrestrictive or would remain unrestrictive.

The second measure that has been put into place is a minimum purchase requirement on grains. The Community has said that Portugal will have to buy at least 15.5 percent of its grain imports annually for the next 5 years from the Community, with any shortfall from that 15.5 percent requirement to be made up by required purchases the next year. This market reserve requirement in essence sets a quota on foreign grain imports of 85.5 percent. Again, we believe this quota is illegal under GATT.

We have suggested to the Community that they suspend the illegal quotas in Portugal and we both go to the GATT to see who is right on this question. If the EC cannot rescind or suspend these measures, our intent is to impose restrictions on imports of some EC products coming into our market to mirror the effect of their quotas on our exports.

In Spain, the onerous variable levy was applied to grain imports on March 1. This will cost us dearly. Before accession, Spain had a GATT commitment not to exceed a 20-percent tariff on grain imports. Now, as a result of the variable levy, the tariff is over 100-percent ad valorem on exports valued at about $600 million annually.

In the GATT rules on the formation of a customs union, the Community can apply the variable levy to Spanish imports but the Community is obliged to pay us compensation for the breach of the Spanish GATT tariff commitment. They have agreed that they owe us compensation but they say they will pay it by lowering tariffs on industrial products in Spain and Portugal.

In fact, they would have to lower these tariffs anyway in the creation of the customs union, and we have doubts about the value of those industrial tariff actions. We don't see this as adequate compensation. We will seek compensation benefiting U.S. agriculture, since American farmers are those who will suffer trade damage.

Under the GATT rules the EC was supposed to offer us compensation before implementing the variable levy. They offered no compensation before withdrawing Spain's tariff commitments on February 11 and implementing the variable levy on March 1.

Under GATT rules, we have 6 months to withdraw equivalent concessions. That 6-month period ends on August 11. We have told the EC that we will enter into compensation negotiations with them but if we do not reach an adequate settlement by July 1, we will rebalance those concessions by increasing tariffs on certain products they export to us. GATT rules require us to give 30 days' notice before the actual tariff increases go into effect, so our duty increases will go into effect in early August.

As you can imagine, we will have a number of consultations with the Community between now and May 1 and July 1, respectively. It is certainly not our intention to start a trade war. However, with the magnitude of trade involved and the reality that a major chunk of that trade will be lost, we must act to protect our rights.

Mr. Chairman, I have attempted to highlight our major agricultural trade policy issues with the European Community. I could have explored each of these in a lot more detail but I will leave it to the subcommittee's judgment as to which areas they would like more information. I would be happy to answer your questions.

Senator ABDNOR. Thank you very, very much for that fine statement.

Before we go to our next witness, I'm going to again ask unanimous consent to insert into the record a joint statement of the Idaho State Wheat Growers Association and the Idaho Wheat Commission. Without objection, it will be made a part of the record.

[The joint statement follows:]

JOINT STATEMENT OF THE IDAHO WHEAT COMMISSION AND THE IDAHO STATE WHEAT GROWERS ASSOCIATION

The Idaho Wheat Commission and the Idaho State Wheat Growers Association welcomed the opportunity to have this brief testimony concerning the need to expand our wheat exporting efforts entered into your committee records.

Exports of U.S. wheat for this marketing year can be summed up in one word -- "Dismal". The latest estimates by the USDA for the 1985/86 marketing year exports is 900 million bushels, 40% below export levels in the previous year and the lowest level in the past 15 years. The Pacific Northwest and more specifically, the Idaho wheat growers who in past years have exported up to 80% of their production, are suffering under these reduced export levels. Total wheat exports in each marketing year since 1980/81 when more export volume moved through the PNW ports than in any other year, have fallen drastically. Total projected exports from the Pacific Northwest this year of 256 million bushels represents a decrease of 23% over the export levels last year and a reduction of over 40% from the 1980/81 marketing year exports.

The various factors which have led to our decline in wheat and other agricultural exports have been well reported. The strong dollar, the high deficit, a high loan rate which made our wheat uncompetitive on the world market, competitors subsidizing their exports, importing nations facing economic hardship, all of these reasons for the decline in exports could be valid.However, instead of dwelling on these points, we urge you and the Administration to use the programs at your disposal to counteract these negative factors which have stymied our exporting ability.

The best tool at your disposal is the Export Enhancement Program, formally known as the BICEP. This program, as it is being used today by the USDA is causing more problems than it is solving. The USDA is using the EEP to counteract flagrant export subsidizes by our competitors. However, they are targeting markets common to the U.S. and the EEC. This limiting of markets has caused considerable problems with our historic and best customers who feel that they should be allowed to use the program. The majority of the wheat exported in the Pacific Northwest goes to the Asian Rim countries of Japan, Taiwan, Korea, etc. These good historic customers have been excluded from the EEP program. These countries can't understand why they have been excluded, and we don't understand why they have been excluded either. In effect, the program to date actually penalizes those traditional customers. The program should be open to all of our customers, Japan, Taiwan, Russia, everyone.

U.S. Wheat Associates, Inc. has identified a freight subsidy provided by the Canadian government for shipment to export terminals. The U.S. Trade Representative, Clayton Yuetter, indicated that the transportation practices could be perceived as a subsidy and has asked the State Department to look into the matter. We urge you to direct the USDA to expand the EEP program to those markets in which the Canadian Wheat Board has expanded its market share at the expense of the U.S. wheat producer. We encourage the expansion of the EEP and urge the USDA to use more of the authorized funding to develop the program.

The Idaho State Wheat Growers Association and the Idaho Wheat Commission also applaud the Blended Credit Program and even though the funding has been greatly reduced, we encourage the use of the program to any interested prospective buyer of U.S. agriculture commodities.

During a recent U.S. Wheat Associates meeting in Washington, D.C., Daniel Amstutz, USDA Under Secretary for International Affairs and Commodity Programs, indicated that the availability of credit to potential buyers is not of great concern at this time. He went on to say that what these counties need is, "increased purchasing power". The programs incorporated and expanded in the Food Security Act of 1985, namely the EEP and Blended Credit programs, if used in a more wide ranging fashion, will provide the increased "purchasing power" that the importing countries require.

Representatives of both the Idaho State Wheat Growers Association and the Idaho Wheat Commission urge the USDA to expand the EEP program to all of the wheat importing countries, use all of the monies available under the intermediate export credit guarantee programs, blended credit programs and the PL-480 program to assist in the expansion of U.S. wheat exports. The State of Idaho and the Pacific Northwest have historically exported over 70% of its wheat, the decline in exports has had a devastating affect on our regions economy. The full and expanded use of all the trade sections in the farm bill will help us to regain market share and again become competitive on the world market.

Submitted by:

Tim D. McGreevy

Mark Samson
Administrator
Idaho Wheat Commission

Tim McGreevy
Executive Director
Idaho State Wheat Growers
Association

Senator ABDNOR. Our next witness, who's been waiting patiently, is Mr. Andreas. We welcome you to the panel, and please proceed.

STATEMENT OF DWAYNE O. ANDREAS, CHAIRMAN AND CEO, ARCHER DANIELS MIDLAND CO.

Mr. ANDREAS. Senator Abdnor and Senator Wilson, thank you for inviting me to appear before you today.

To give you an idea of where I speak from, my name is Dwayne Andreas. I'm chairman of the board and chief executive officer of Archer Daniels Midland Co. ADM is a food processing company located in the heart of America's farm country. We have 175,000 farmer shareholders and are partners in global merchandising of farm crops with cooperatives that represent more than 2 million farmers. ADM is unique in that it is the only public company entirely devoted to processing, marketing, and moving agricultural products. Together with our affiliates and subsidiaries, we market, manage, and move approximately 75 million tons annually around the world.

If we are to understand the effects on U.S. agriculture of the Common Agricultural Policy of the European Economic Community, we should go back in history and examine a little-publicized report dated August 24, 1960. It was in the early 1960's that we negotiated the famous Kennedy Round which set the stage for vast uneconomic ventures in subsequent years.

Secretary of Agriculture Ezra Taft Benson, after an extensive trip through several Common Market countries, submitted the following most perceptive recommendations and conclusions:

First, "I am very much concerned about the preponderant support I found for higher rather than lower support levels in some countries. The potential for production increases in the Common Market area is great. If stimulated by high prices, production increases for grains, oilseeds, and livestock products can make the area more self-sufficient and reduce our traditional dollar exports in this part of Europe. It is essential that the United States continue to follow a liberal trade policy. Thus, our moral position in urging greater imports of U.S. farm products into dollar export areas will be sustained. I found this to be so on my trip."

Second, he said, "I found that our current export potential in this area was being hampered by protective devices which inhibited trade in agricultural commodities. These current restrictions on our exports, many of them discriminatory in nature, should be removed as rapidly as possible."

He further said, "If the EEC adopts the protective import program which has been proposed, this could easily result in reduced exports from the United States.

"I find it difficult to see how they can develop an outward-looking policy under a system which utilizes, for many agricultural commodities, unlimited variable import levies against the competition of imports.

"High price supports would force the Community to implement them by trade-restricting devices which would interfere with normal commercial relations. High price support in the United

States would weaken our position in making a strong objection to high supports in other countries."

Furthermore he said, "During the 6-to-9-year transition to the Common Agricultural Policy, the amount of protection should be reduced progressively so that the trade of the EEC with other free countries will expand on a mutually beneficial basis. We cannot expect sudden policy shifts without disruptions."

Last, he said, "Our use of some Public Law 480 funds for market development has achieved considerable success in Western Europe. This program, in cooperation with American industry, should be strengthened and enlarged."

Secretary Benson and President Eisenhower were the founders of the Public Law 480 program which has been used over the years as a very successful device for increasing U.S. exports.

Now soon after Secretary Benson made those comments, the so-called Kennedy Round took place and it was there that we not easily agreed to the Common Agricultural Policy which now, 26 years later, has left us with the following devastating results, and I want to name a few.

On April 1, 1986, the U.S. average farm price per bushel of wheat was $3.17 but the import levy was $4.24 on top of that.

For corn, the average price received by U.S. farmers for corn was $2.31 on April 1. To enter the Common Market, we had to pay an additional duty of $3.49 per bushel.

Our surplus corn is converted into ethanol which costs in the United States about $1.20 a gallon. It's used as an octane booster. Spain buys ethanol from its farmers for about $4 a gallon and then sells it to a Jamaican company for 40 cents a gallon, 10 percent of cost. The Jamaican company then passes it through a pipe to dehydrate it, an operation that could be performed in the United States for less than 5 cents a gallon if we were permitted to do it, then calls it a CBI product and brings it into the United States without paying the 60 cents a gallon duty.

When it is used here, it benefits from another 60 cents tax concession which was enacted as a national security measure to help the United States be independent of imports and to help corn growers market their corn. Our Government agencies have supported this ridiculous policy, despite the obvious fact that every 100 million gallons that comes in from Spain or Italy replaces 40 million bushels of corn and costs our Government more than $60 million in revenue.

Unless this loophole is plugged, it will cost the U.S. Government hundreds of millions of dollars, benefiting no one.

For grain sorghum, the U.S. producer received $3.68 per hundredweight, and the import levy is an additional $3.66 per hundredweight.

For broilers, once a great thriving export business in the United States which is the low-cost producer, the import levy is now 15 cents a pound and the export subsidy from the Common Market is 11 cents a pound. They now dominate world broiler trade with subsidies, although we are the low-cost producer.

Wheat flour is so heavily subsidized into export that the EEC share of world trade in flour has gone from 20 percent to 60 percent—these are approximations—while ours has gone from 60 percent to below 20 percent, even though we are by far the low-cost producer. This has cost us $13 billion in flour exports since the early 1970's when we first filed a complaint which has never been carried out to a successful conclusion.

Foreign federal treasuries are destroying the law of comparative advantage.

Now I commend Secretary Baker for his efforts in bringing about a cheaper dollar which some folks think is one of the underlying problems that we have with the farm exports. However, I hasten to point out that Brazil, Canada, and China have already devalued more than we have. The Japanese are already stepping in to prevent further devaluation and cheapening of the dollar. And all of these competitors of ours are experts at covert methods of devaluing. Unless that program is policed constantly, it's likely to result just in a race to devalue currency for which there is just one word—inflation.

Now at the time the Bensen report was written, the EEC was a much larger grain importer, buying up to 20 million tons of grain a year. Recently, it has been exporting about 5 million tons per year plus more sugar, poultry, eggs, and dairy products than any single country in the world and, except for Argentina, is the greatest beef exporter in the world. Only Canada and the United States exceed the EEC in wheat exports.

The ascendancy of the EEC position reflects the full effects of the common agricultural policy's use of expensive and complex devices, such as high price supports and export subsidies. These tactics are buttressed by variable import levies and feed manufacturing requirements to use EEC surplus products. More recently, to reduce protein meal imports—that's soybean meal and soybeans—extremely high returns are provided for Common Market producers of soybeans. They are supported at about $15 a bushel, three times the American price, three times what you can buy them for from us. Also, rapeseed and sunflower seeds, which compete with soybeans, are sold to processors at 30 percent of the price farmers receive. That's 70 percent subsidy with which we who grow and process soybeans have to compete. That is part of the EEC effort to drive U.S. soybeans from the marketplace.

With all these expensive economic incentives for production, surpluses are the inevitable result. These surpluses are disposed of by utilizing a device called export restitutions which we refer to as export subsidies.

Now probably the worst case scenario is that of sugar. Sugar is supported at about 27 cents per pound in the EEC and dumped indiscriminately into the world market at the raw sugar equivalent, or prices as low as 3 cents per pound during the last year. That is less than the value of sand, less than the cost of shipping it to the ports. The EEC sugar policy is costing developing countries some $6.4 billion annually in lost income and we are trying to replace that here and there with a little patchwork of foreign aid. It is my judgment that the United States would not need a sugar program at all if the EEC should stop its dumping program, but its dumping program is designed to bankrupt all other sugar growers and give them EEC eventually a commanding position which would drive prices through the roof one day.

USDA and others agree that EEC export and production are costing U.S. farmers the loss of about $6 billion annually in export markets and many billions more in farm income because of depressed prices.

Now a recent study by the Australian Bureau of Agricultural Economics reveals that the EEC policies have "depressed world prices of major temperate agricultural products by, on average, some 16 percent globally."

Ironically, all this massive subsidizing of EEC production, costing the Common Market over $14 billion a year, is possible because the U.S. negotiators agreed to it contractually in the so-called Kennedy round. It is also made possible by the fact that the United States pays tens of billions of dollars toward the EEC countries' defense costs, which leaves them with their own tax collections to support an economic war against the Third World countries and, indeed, against the U.S. farmers.

Internal stability, buttressed by variable levy and other devices, creates external price destablilization, especially when worldwide dumping occurs.

I am certain that U.S. Government witnesses will advise this committee that the administration policy is strongly against the EEC policies which distort trade and do damage to the concept of comparative advantage. Successive administrations have been saying this for years, so frequently that we are known in Europe as "Paper Tigers." The U.S. Government sends strong notes, and the EEC sends grain and other products to compete in the world markets.

I understand that Secretary Benson, on his historic trip, was told that the CAP was to be the glue that would hold the EEC together. However, I feel that this objective could have been achieved at much less cost to the non-EEC countries and at a much less cost to them. It will be difficult at this point in history to resolve the basic differences between the EEC and the United States—yet settle or ameliorate them we must. There are many within the EEC who recognize that the costs, increasing at a rapid rate, will force a restructuring of the common agricultural policy. The new U.S. legislation will increase export subsidy costs to the EEC.

Now here are some recommendations that I would like to put before you. Last year I chaired the President's Task Force on International Free Enterprises dealing with trade and aid. We made several recommendations.

One of the most important recommendations was that we double over Public Law 480 program which has successfully functioned to move food and food products into additional consumption globally.

We should implement that recommendation forthwith and invite the EEC to join with us by contributing an equal amount to parts of the world which otherwise could not afford to buy it. High-level EEC officials have expressed an interest in such a coordinated effort. This could be done without legislation or appropriations simply by donating surpluses to the Public Law 480 administrative procedures in the same manner that we donate surpluses owned by the Government to the BICEP program. It is a fallacy to run the Public Law 480 costs through the budget department because it's proven in the report of my commission substantially all Public Law

480 business actually reduces the cost to the Government by reducing farm program costs and reducing storage costs.

Now such a program successfully administered could solve most of the surplus problems by increasing consumption for essential humanitarian reasons. The economic benefits would be enormous. This program, which was initiated by Benson and Eisenhower, has been operated at no cost to the Government because it reduces the cost of storing and keeping surpluses and of the farm programs far more than the outlay that is required. It is a cost-free way to solve this problem.

It is to both the United States and the EEC interests to resolve the problems inherent in the strong competitiveness for export markets. The United States has unilaterally made efforts to adjust output and stocks. However, in 1983, the so-called payment-in-kind program, which resulted in sharp downward production in the United States, was immediately accompanied by sharp upward increases outside the United States. Therefore, we made no progress with that system.

The EEC and the United States should meet and agree on a production restraint policy. With the long U.S. history of production control efforts, the conferences could be mutually profitable and I highly recommend that such conferences take place on a continuing basis.

Now, for example, if the EEC and the United States could agree to each reduce sugar and fructose production by about 2 million tons annually, world sugar markets would become market oriented once again. U.S. import quotas could be vastly increased or even eliminated with resulting economic benefits to the CBI and developing countries.

Policy changes should become a matter of bilateral discussion with the objective of avoiding injury to the other country and possibly to third countries. The interests of low-income, developing countries must be taken into consideration on the continuing agenda.

Now our task force recommended that at least $7 billion should be made available for mixed credits through the Export-Import Bank to match the mixed credits proliferating from other Western mercantile countries who are competitors of ours.

I applaud the administration's recent decision to adopt that suggestion with a $300 million appropriation beginning for that purpose. However, I want to point out that our commission task force believed that 20 times that much is needed to revive our exports to compete successfully and to bring the countries who abuse mixed credits to the bargaining table.

I do not mean to imply that the above are a complete list of possible recommendations. None of these suggestions will be easy to accomplish. However, failure to make economic sense through negotiations is unthinkable and much more difficult.

One step that could be taken which would produce immediate results is as follows: the President could delegate a large part of his powers in governing trade, in managing trade, to the U.S. Trade Representative. Trade is now so important that it cannot be left as a part-time undertaking of a few doctrinaire economists. It should be attended to by the very competent people in USTR who have proven in recent years that they are trying to make an effort to get hold of the problem.

Now if the President doesn't see fit to delegate these to the professional staff, then it's possible for Congress to delegate these trade powers directly to USTR and I strongly recommend that that be done.

In closing, I would like to comment in another vein on our attitude toward the EEC Commissioners who are friends of ours. We must be careful to not be too critical of them. They are competent and able men. A number of them disagree, just as we do, with their policies. But they are obligated by political considerations to carry out programs and policies which we—our negotiators—in the Kennedy round contractually agreed to long ago. So we share that responsiblity. We never should have agreed to them in the first place and our negotiators were encouraged not to agree to them by almost all agribusiness people that were involved.

I applaud the free-market orientation of this administration. I, myself, have lobbied for free markets in years past as chairman of the International Business Trade Commission. But we in business now often question whether doctrinaire economists in Government, most of whom have no practical business experience, realize that very often, when preoccupied with the ideology of free trade practices in a world which has abandoned free trade, they are in fact saying to our people and our institutions something like this—to our workers and our farmers and our cooperatives and our corporations—"Go ahead. Compete directly with foreign governments who engage in business using subsidies and state trading. If that means you become unemployed or go broke, so be it. It's part of the system." That's what they are saying. This is utter nonsense, and the dire consequences of neglecting trade policy are already evident.

I read a very interesting article by Bill Neikirk in the April 20 edition of the Chicago Tribune which I ask be made a part of this testimony. I will not read it but I wish to have it included in the record because I think it is an extraordinarly good article.

I would also like, with your permission, Mr. Chairman, to include in the record an action brief on Public Law 480 which our task force regarded as the principal instrument of government to help solve this problem. Here is the brief report. I would like to have it included in the record. What it sets out to prove is that we can solve this surplus problem at no cost if we intelligently use this program.

I should also like to ask you to let me include in the record a daily report here which gives the selected international prices, tariffs of all of the EEC commodities.

Senator **Abdnor**. Without objection, all three articles will be made a part of the record.

[The prepared statement of Mr. Andreas, together with the additional material referred to for the record, follows:]

PREPARED STATEMENT OF DWAYNE O. ANDREAS

Good morning and thank you for inviting me to appear before you today. My name is Dwayne Andreas. I am Chairman of the Board and Chief Executive Officer of Archer Daniels Midland Company. ADM is a food processing company located in the heart of America's farm country. We have 175,000 farmer shareholders and are partners in global merchandising of farm crops with cooperatives that represent more than 2 million farmers. ADM is unique in that it is the only public company entirely devoted to processing, marketing, and moving agricultural products. Together with our affiliates and subsidiaries, we market, manage, and move approximately 75 million tons annually around the world.

If we are to understand the effects on U.S. agriculture of the Common Agricultural Policy of the European Economic Community, we should go back in history and examine a little-publicized report dated August 24, 1960. It was in the early 1960's that we negotiated the famous Kennedy Round which set the stage for vast uneconomic ventures in the years to come.

Secretary of Agriculture Ezra Taft Benson, after an extensive trip through several Common Market countries, submitted the following most perceptive recommendations and conclusions:

1. "I am very much concerned about the preponderant support I found for higher rather than lower support levels in some

COUNTRIES. THE POTENTIAL FOR PRODUCTION INCREASES IN THE COMMON MARKET AREA IS GREAT. IF STIMULATED BY HIGH PRICES, PRODUCTION INCREASES FOR GRAINS, OIL SEEDS, AND LIVESTOCK PRODUCTS CAN MAKE THE AREA MORE SELF-SUFFICIENT AND REDUCE OUR TRADITIONAL DOLLAR EXPORTS IN THIS PART OF EUROPE. IT IS ESSENTIAL THAT THE UNITED STATES CONTINUE TO FOLLOW A LIBERAL TRADE POLICY. THUS, OUR MORAL POSITION IN URGING GREATER IMPORTS OF U.S. FARM PRODUCTS INTO DOLLAR EXPORT AREAS WILL BE SUSTAINED. I FOUND THIS TO BE SO ON MY TRIP."

2. "I FOUND THAT OUR CURRENT EXPORT POTENTIAL IN THIS AREA WAS BEING HAMPERED BY PROTECTIVE DEVICES WHICH INHIBITED TRADE IN AGRICULTURAL COMMODITIES. THESE CURRENT RESTRICTIONS ON OUR EXPORTS, MANY OF THEM DISCRIMINATORY IN NATURE, SHOULD BE REMOVED AS RAPIDLY AS POSSIBLE."

3. "IF THE EEC ADOPTS THE PROTECTIVE IMPORT PROGRAM WHICH HAS BEEN PROPOSED, THIS COULD EASILY RESULT IN REDUCED EXPORTS FROM THE UNITED STATES. THIS COULD CREATE SERIOUS PROBLEMS IN THE DEVELOPMENT OF MUTUALLY BENEFICIAL AND MORE LIBERAL TRADE POLICIES."

4. "WE MUST CONTINUE TO IMPRESS THE INDIVIDUAL MEMBERS OF THE COMMON MARKET THAT THE U.S. IS BASING ITS STRONG SUPPORT FOR THE COMMUNITY ON THE ASSUMPTION THAT AN OUTWARD-LOOKING POLICY WHICH WILL CONTRIBUTE TO EXPANSION OF THE MULTILATERAL

TRADE ON A NON-DISCRIMINATORY BASIS WILL BE DEVELOPED. I FIND IT DIFFICULT TO SEE HOW THEY CAN DEVELOP AN OUTWARD-LOOKING POLICY UNDER A SYSTEM WHICH UTILIZES, FOR MANY AGRICULTURAL COMMODITIES, UNLIMITED VARIABLE IMPORT LEVIES AGAINST THE COMPETITION OF IMPORTS."

5. "HIGH PRICE SUPPORTS WOULD FORCE THE COMMUNITY TO IMPLEMENT THEM BY TRADE-RESTRICTING DEVICES WHICH WOULD INTERFERE WITH NORMAL COMMERCIAL RELATIONS. THIS COULD RELEGATE OUTSIDE COUNTRIES TO THE STATUS OF RESIDUAL SUPPLIERS. THIS WOULD DO IRREPARABLE HARM TO GATT SINCE ONE OF ITS PRIMARY OBJECTIVES IS TO EXPAND TOTAL TRADE, INCLUDING AGRICULTURE. HIGH PRICE SUPPORTS IN THE UNITED STATES WOULD WEAKEN OUR POSITION IN MAKING A STRONG OBJECTION TO HIGH SUPPORTS IN OTHER COUNTRIES."

6. "DURING THE 6 TO 9 YEAR TRANSITION TO THE COMMON AGRICULTURAL POLICY, THE AMOUNT OF PROTECTION SHOULD BE REDUCED PROGRESSIVELY SO THAT THE TRADE OF THE EEC WITH OTHER FREE COUNTRIES WILL EXPAND ON A MUTUALLY-BENEFICIAL BASIS. WE CANNOT EXPECT SUDDEN POLICY SHIFTS WITHOUT DISRUPTIONS.

7. "OUR USE OF SOME P.L. 480 FUNDS FOR MARKET DEVELOPMENT HAS ACHIEVED CONSIDERABLE SUCCESS IN WESTERN EUROPE. THIS PROGRAM, IN COOPERATION WITH AMERICAN INDUSTRY, SHOULD BE STRENGTHENED AND ENLARGED."

Now, 26 years later, we find the following devastating results:

On April 1, 1986, the U.S. average farm price per bushel of wheat was $3.17 per bushel. The variable import levy was $4.24 per bushel on top of that.

For corn, the average price received by U.S. farmers for corn was $2.31 per bushel. To enter the Common Market, the importer had to pay an additional $3.49 per bushel.

Our surplus corn is converted into ethanol which costs about $1.20 a gallon. Spain buys ethanol from its farmers for about $4.00 a gallon then sells it to a Jamaican company for 40 cents a gallon. The Jamaican company passes it through a pipe to dehydrate it, an operation that could be performed in the U.S. for less than 5 cents a gallon, then calls it a CBI product and brings it in to the United States without paying the 60 cents a gallon duty.

When it is used here, it benefits from another 60 cents tax concession which was enacted as a National Security Measure to help us be independent of imports and to help corn growers market their corn, despite the obvious fact that every 100 million gallons replaces 40 million bushels of corn and costs our government more than $60 million in revenue.

For grain sorghum, the U.S. producer received $3.68 per cwt., and the import levy was an additional $3.66 cwt.

For broilers, the import levy is approximately 15 cents per pound. The Common Market's export subsidy on broilers is now 11 cents per pound. They now dominate world broiler trade with subsidies although we are the low-cost producer.

Wheat flour is so heavily subsidized into export that the EEC share of world trade in flour has gone from 20% to 60% while ours has gone from 60% down to 20%, even though the U.S. is by far the lowest-cost producer. This has cost us $13 billion in flour exports since 1970.

Foreign federal treasuries destroy the law of comparative advantage.

At the time the Benson report was written, the EEC was a much larger grain importer, buying up to 20 million tons of grain per year. Recently, it has been exporting about 5 million tons per year plus more sugar, poultry, eggs, and dairy products than any single country in the world and, except for Argentina, is the greatest beef exporter in the world. Only Canada and the U.S. exceed the EEC in wheat exports.

THE ASCENDANCY OF THE EEC POSITION REFLECTS THE FULL EFFECTS OF THE COMMON AGRICULTURAL POLICY'S USE OF EXPENSIVE AND COMPLEX DEVICES, SUCH AS HIGH PRICE SUPPORTS AND EXPORT SUBSIDIES. THESE TACTICS ARE BUTTRESSED BY VARIABLE IMPORT LEVIES AND FEED MANUFACTURING REQUIREMENTS TO USE EEC SURPLUS PRODUCTS. MORE RECENTLY, TO REDUCE PROTEIN MEAL IMPORTS, EXTREMELY HIGH RETURNS ARE PROVIDED FOR COMMON MARKET PRODUCERS OF SOYBEANS (ABOUT $15 PER BUSHEL). ALSO, RAPESEED AND SUNFLOWER SEED ARE SOLD TO PROCESSORS AT 30% OF THE PRICE FARMERS RECEIVE. THAT IS PART OF THE EEC EFFORT TO DRIVE U.S. SOYBEANS FROM THE MARKETPLACE.

WITH ALL THESE EXPENSIVE ECONOMIC INCENTIVES FOR PRODUCTION, SURPLUSES ARE THE INEVITABLE RESULT. THESE SURPLUSES ARE DISPOSED OF BY UTILIZING A DEVICE CALLED EXPORT RESTITUTIONS (WHICH WE CALL EXPORT SUBSIDIES).

PROBABLY THE WORST CASE SCENARIO IS THAT OF SUGAR. SUGAR IS SUPPORTED AT ABOUT 27 CENTS PER POUND AND DUMPED INTO THE WORLD MARKET AT THE RAW SUGAR EQUIVALENT -- AS LOW AS 3 CENTS PER POUND. THE EEC SUGAR POLICY IS COSTING DEVELOPING COUNTRIES SOME $6.4 BILLION ANNUALLY IN LOST INCOME. IT IS MY JUDGMENT THAT THE U.S. WOULD NOT NEED A SUGAR PROGRAM IF THE EEC SHOULD STOP ITS DUMPING PROGRAM.

On a global basis, U.S. agricultural exports are severely depressed from a dollar peak in 1981 of almost $44 billion to a 1986 USDA estimate of $28 billion -- a drop of more than 35% in 5 years. I do not mean to imply that this reduction in exports is all due to EEC policies. Actually, it is due to several factors, including, but not limited to, recessions and even depressions in several potential importing countries. Additional causes are the International Monetary Fund and related debt constraints of third world countries, and the value of the dollar relative to the currencies of other exporters. (This latter case is being corrected but will not show immediate results.)

Moreover, the relatively high loan rates in the U.S. have been a contributing factor to making us a residual supplier. The 1985 Food Security Act will enable the U.S. to be much more competitive -- if the authorities provided therein are implemented wisely.

Nevertheless, USDA and others agree that EEC export and production are costing U.S. farmers the loss of about $6 billion annually in export markets and about a billion more annually in farm income because of depressed prices.

A recent study by the Australian Bureau of Agricultural Economics reveals that the EEC policies have "depressed world prices of major temperate agricultural products by, on average, some 16 percent."

IRONICALLY, ALL THIS MASSIVE SUBSIDIZING OF EEC PRODUCTION, COSTING THE COMMON MARKET OVER $14 BILLION A YEAR, IS POSSIBLE BECAUSE THE U.S. NEGOTIATORS AGREED TO IT IN THE KENNEDY ROUND AND BECAUSE THE U.S. PAYS TENS OF BILLIONS OF DOLLARS TOWARD EEC COUNTRIES' DEFENSE COSTS, LEAVING THEM WITH ENOUGH TAX INCOME TO CARRY OUT THIS PROGRAM.

FUNDAMENTALLY, THE FORMATION OF THE CAP RESULTED IN AN INCREASE IN PROTECTION AGAINST AGRICULTURAL COMMODITIES FROM NON-MEMBER COUNTRIES. ACTUALLY, WHAT WE SEE IS INSULATION, WITH FEW EXCEPTIONS, FROM OUTSIDE COMPETITION AND THE INTERNAL SUPPORTS WELL ABOVE WORLD PRICE LEVELS. INTERNAL STABILITY, BUTTRESSED BY THE VARIABLE LEVY AND OTHER DEVICES, CREATES EXTERNAL PRICE DESTABALIZATION, ESPECIALLY WHEN WORLD-WIDE DUMPING OCCURS.

I AM CERTAIN THAT U.S. GOVERNMENT WITNESSES WILL ADVISE THIS COMMITTEE THAT THE ADMINISTRATION POLICY IS STRONGLY AGAINST THE EEC POLICIES WHICH DISTORT TRADE AND DO DAMAGE TO THE CONCEPT OF COMPARATIVE ADVANTAGE. SUCCESSIVE ADMINISTRATIONS HAVE BEEN SAYING THIS FOR YEARS, SO FREQUENTLY THAT WE ARE KNOWN IN EUROPE AS "PAPER TIGERS". THE U.S. GOVERNMENT SENDS STRONG NOTES, AND THE EEC SENDS GRAIN AND OTHER PRODUCTS.

I UNDERSTAND THAT SECRETARY BENSON, ON HIS HISTORIC TRIP, WAS TOLD THAT THE CAP WAS TO BE THE GLUE THAT WOULD HOLD THE

EEC TOGETHER. HOWEVER, I FEEL THAT THIS OBJECTIVE COULD HAVE BEEN ACHIEVED AT MUCH LESS COST TO THE NON-EEC COUNTRIES. IT WILL BE DIFFICULT AT THIS POINT IN HISTORY TO RESOLVE THE BASIC DIFFERENCES BETWEEN THE EEC AND THE U.S. -- YET SETTLE OR AMELIORATE THEM WE MUST. THERE ARE MANY WITHIN THE EEC WHO RECOGNIZE THAT THE COSTS, INCREASING AT A RAPID RATE, WILL FORCE A RESTRUCTURING OF THE CAP. THE NEW U.S. LEGISLATION WILL INCREASE EXPORT SUBSIDY COSTS TO THE EEC.

RECOMMENDATIONS:

1. LAST YEAR I CHAIRED THE PRESIDENT'S TASK FORCE ON INTERNATIONAL FREE ENTERPRISES DEALING WITH TRADE AND AID. WE MADE SEVERAL RECOMMENDATIONS, SOME OF WHICH HAVE BEEN ADOPTED.

ONE OF THE MOST IMPORTANT RECOMMENDATIONS WAS THAT WE DOUBLE THE P.L. 480 PROGRAM WHICH HAS SUCCESSFULLY FUNCTIONED TO MOVE FOOD AND FOOD PRODUCTS INTO ADDITIONAL CONSUMPTION GLOBALLY.

WE SHOULD IMPLEMENT THAT RECOMMENDATION FORTHWITH AND INVITE THE EEC TO JOIN WITH US BY CONTRIBUTING AN EQUAL AMOUNT TO PARTS OF THE WORLD WHICH OTHERWISE COULD NOT AFFORD IT. HIGH-LEVEL EEC OFFICIALS HAVE EXPRESSED INTEREST IN SUCH A COORDINATED EFFORT. THIS COULD BE DONE WITHOUT LEGISLATION OR APPROPRIATIONS SIMPLY BY DONATING SURPLUSES TO THE P.L. 480 ADMINISTRATION LIKE WE DO FOR THE BICEP PROGRAM. SUCH A PROGRAM AGGRESSIVELY

ADMINISTERED COULD SOLVE MOST OF THE SURPLUS PROBLEMS BY INCREASING CONSUMPTION FOR ESSENTIAL HUMANITARIAN REASONS. ECONOMIC BENEFITS WOULD BE ENORMOUS.

2. THERE SHOULD BE A RECOGNITION THAT THE CURRENT GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) HAS HAD VERY LITTLE EFFECT ON AGRICULTURAL TRADE. THE NEXT ROUND OF TRADE NEGOTIATIONS MUST RESOLVE THIS PROBLEM -- OR CEASE TO BE A FACTOR IN WORLD MARKET DISPUTES. THERE MUST BE A COMMITMENT TO IMPROVEMENT OF THE CONDUCT OF ALL PARTIES INVOLVED IN AGRICULTURAL TRADE.

3. IT IS TO BOTH THE U.S. AND THE EEC INTERESTS TO RESOLVE THE PROBLEMS INHERENT IN THE STRONG COMPETITIVENESS FOR EXPORT MARKETS. THE U.S. HAS UNILATERALLY MADE EFFORTS TO ADJUST OUTPUT AND STOCKS. HOWEVER, THE 1983 PIK PROGRAM, WHICH RESULTED IN SHARP DOWNWARD PRODUCTION ADJUSTMENTS, WAS ACCOMPANIED BY INCREASES IN NON-U.S. PRODUCTION. THEREFORE, THE EEC AND THE U.S. SHOULD MEET TO AGREE ON PRODUCTION RESTRAINT POLICY. WITH THE LONG U.S. HISTORY OF PRODUCTION CONTROL EFFORTS, THE CONFERENCES CAN BE MUTUALLY PROFITABLE.

4. IF THE EEC AND THE U.S. COULD AGREE TO EACH REDUCE SUGAR AND FRUCTOSE PRODUCTION BY ABOUT 2 MILLIONS TONS ANNUALLY, WORLD SUGAR MARKETS WOULD BECOME MARKET ORIENTED ONCE AGAIN. U.S. IMPORT QUOTAS COULD BE INCREASED OR EVEN ELIMINATED WITH RESULTING ECONOMIC BENEFITS TO THE CBI AND DEVELOPING COUNTRIES.

5. Policy changes should become a matter of bilateral discussion with the objective of avoiding injury to the other country and possibly to third countries. The interests of low-income, developing countries must be on the continuing agenda.

6. Our Task Force recommended that at least $7 billion should be made available for mixed credits through the Export Import Bank to match the mixed credits proliferating from other Western countries.

I applaud the Administration's recent decision to start with $300 million for that purpose. Twenty times that much is needed to revive exports and to bring the countries who abuse mixed credits to the bargaining table.

I do not mean to imply that the above are a complete list of possible recommendations. None of these suggestions will be easy to accomplish. However, failure to make economic sense through negotiations is unthinkable and much more difficult.

In closing, I would like to comment in another vein on our attitude toward the EEC Commissioners. We must be careful to not be too critical of them. A number of them disagree just as we do with their policies. But they are obligated to carry out programs and policies which we -- our negotiators -- contracturally agreed to long ago. So we share the responsibility.

I APPLAUD THE FREE-MARKET ORIENTATION OF THIS ADMINISTRATION. BUT WE IN BUSINESS OFTEN QUESTION WHETHER DOCTRINAIRE ECONOMISTS IN GOVERNMENT, MOST OF WHOM HAVE NO PRACTICAL BUSINESS EXPERIENCE, REALIZE THAT VERY OFTEN, WHEN PREOCCUPIED WITH THE IDEALOGY OF FREE TRADE PRACTICES IN A WORLD WHICH HAS ABANDONED FREE TRADE, THEY ARE IN FACT SAYING TO OUR PEOPLE AND INSTITUTIONS: "WORKERS, FARMERS, COOPERATIVES, CORPORATIONS, GO AHEAD -- COMPETE DIRECTLY WITH FOREIGN GOVERNMENTS WHO ENGAGE IN BUSINESS USING SUBSIDIES AND STATE TRADING. IF THAT MEANS YOU BECOME UNEMPLOYED OR GO BROKE, SO BE IT. IT'S PART OF THE SYSTEM." THIS IS UTTER NONSENSE, AND THE DIRE CONSEQUENCES OF NEGLECTING TRADE POLICY ARE ALREADY EVIDENT.

I READ A VERY INTERESTING ARTICLE BY BILL NEIKIRK IN THE APRIL 20 EDITION OF THE CHICAGO TRIBUNE WHICH I ASKED TO HAVE MADE PART OF THIS TESTIMONY.

Chicago Tribune, April 20, 1986

Bill Neikirk

Dumbfounded U.S. has itself to blame for spoiled Europe

Chicago Tribune

WASHINGTON—I am still surprised that Americans were shocked at France's refusal to permit the United States to fly over its country so our bombers would have a shorter flight to Tripoli.

I really don't think anyone should get all that angry at the French for once again thumbing their Gallic noses at us. They were just responding in the rather cavalier way European countries have become accustomed to responding to the U.S. since the end of World War II.

It's not their fault that they are like this. It's our fault.

Poor, dumb Americans. We are always ready to help, or to give in to economic demands to maintain peace in the alliance. We have created a Europe that believes it is entitled to our everlasting patience, acquiescence and pocketbook.

It's our monster over there.

Our own generosity, and cheap dollars, helped rebuild Europe after World War II. The $12 billion Europe received in U.S. economic aid through the

Continued on page 6

Neikirk

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Marshall Plan from 1948 to 1952 set its ravaged economy on a path of long-term growth. That was the first entitlement.

Yet, when its economy soured and Europe found itself faced with old, declining industries, it refused to adjust and instead insisted on subsidies and trade barriers to protect its firms.

Americans complained, but not loudly enough. Our own State Department, fearing the economic and political consequences of pushing our allies too hard, acquiesced to these protective regimes. And so our jobs suffered. Poor, dumb Americans.

The steel industry has literally become a worldwide cartel because of this. The Reagan administration, which likes to call itself the most free-trade government in the world, signed on to this anti-free market deal a few years ago—and had the nerve to call it a victory.

We have abided the European Common Market's highly protective agricultural policy with a patience that would shame Job. Only now, after all these years of caving in to European demands, are we beginning to act like we mean business, threatening retaliation. But it may not come to pass.

France, by the way, has some of the most inefficient farms on the face of the earth. Why should we, with some of the most efficient farms in the world, dillydally with the French and other European nations on a common agricultural policy that is a mockery of the free market?

When it comes to trade matters, said a White House official, the Europeans start from the notion that they will never yield; it is always the Americans who must give first.

Don't get angry. It's our fault.

We have this false notion, held over from the Cold War, that the Europeans are doing us a great favor on security by providing the land for our bases. True, but only insofar as it goes. Europeans rarely admit that the soldiers and weapons we provide are basic to their own security.

Furthermore, if one breaks out the cost, we invest more in NATO than the Europeans do. This is nothing new. The Europeans expect this entitlement, having become so accustomed to entitlements over the years. This frees up money for European governments to make subsidies to their inefficient industries.

Poor, dumb Americans. In spite of our temporary anger at the French, we are enslaved with the notion that French and European culture is somehow superior to ours, and therefore deserving of deference and assistance in all its varied forms.

We willingly believe the European chauvinism that just because its culture is older, filled with ancient ruins and priceless art and literature, it is somehow better. To be sure, our own history is an extension of European history, but we do not have to apologize for our culture. It has had its genuises in art and literature. It has its own great historial landmarks and a political and economic heritage Europe cannot match.

With one exception: There are too many dumb Americans. As our economic and political systems become internationalized, and our own economic and political well-being rests on decisions made in many different countries, too many Americans adopt this self-centered, insular attitude that we are somehow safe from the international winds of change.

Therefore, we don't really put any pressure on our leaders in Washington to get tougher with the Europeans on trade and economic matters, or to consider withrawing some of the troops we have there. We cannot go on subsidizing Europe to the same degree we have been.

Americans by nature want to be liked. We need to reconsider this national weakness. Maybe then we will be more appreciated and have some airspace open to us.

P.L. 480 Action Brief

The President's Task Force on International Private Enterprise

The P.L. 480 Food for Peace Program should be at least doubled to help avert starvation and alleviate poverty, expand developing country agricultural markets, and support private sector growth.

December 1984

P.L. 480
Action Brief

The President's Task Force on International Private Enterprise

In May 1983, at a time of severe international economic turbulence, the President established the President's Task Force on International Private Enterprise. The President requested that the Task Force identify ways to strengthen the economies of developing nations. In particular, the President asked the Task Force how U.S. foreign assistance could be used to stimulate private enterprise development and promote investment in and trade with developing countries.

In our report to the President, we proposed a number of specific program and organizational changes. We have tried to be diligent in finding the best means to translate policy into action. To this end, we have prepared the following "action brief" that elaborates on a major recommendation of the Task Force, the doubling of the P.L. 480 Food for Peace Program.

P.L. 480

P.L. 480
Action Brief

The P.L. 480 Food for Peace Program should be at least doubled to help avert starvation and alleviate poverty, expand developing country agricultural markets, and support private sector growth.

Introduction

WORLD FOOD NEEDS AND AVAILABILITIES

The developing world today faces an economic crisis of major proportions and will continue to experience serious difficulties throughout this century. Rapid population growth and the need to improve the diets of millions of people create rising demands for the most basic human need—food. Most developing countries will have difficulty expanding their food production fast enough to keep pace with increased needs. Natural resources are being depleted at alarming rates as agriculture expands onto marginal lands of low and unreliable productivity. Agricultural productivity increases are desperately needed, but depend on substantial investment in land development, infrastructure, and such production inputs as fertilizer and seeds. Capital to meet these needs is scarce, especially in the present world financial crisis. Business and technical skills and a suitable technology base continue to be critical constraints. In addition, government policies in many countries discourage agricultural production. The combination of these factors suggests that food deficits will continue to grow.

Unfortunately, progress in agricultural development in the recent past has been extremely disappointing. Asia, Africa, and Latin America have all turned from food exporters to food importers. Their overall rate of growth in agricultural production has decreased due to soil erosion and reduced return on the use of various production inputs. Further, there have been only relatively modest advances in agricultural technology, especially as related to the needs of developing countries. For example, in 31 of the least developed countries, agricultural production over the past decade increased only 1.6 percent per year compared to a population increase of 2.6 percent per year. Starvation is thus a constant threat. Increased production is a vital and urgent necessity.

Estimates by the Department of Agriculture (USDA) support the notion that significant amounts of food aid will be required in the coming years to sustain even the current inadequate diets in many developing countries. In 1983-1984, USDA estimated that at least 12 million tons of food aid would be required to maintain average per capita consumption levels. This quantity would have to be increased to at least 33 million tons were per capita consumption to rise sufficiently to meet minimally acceptable nutritional levels. (See Table 1.) This grim picture masks additional problems that call for even higher levels of food imports. These figures do not take into account either uneven distribution across or within countries or allow for unforeseen natural disasters that can demand significant quantities of food to meet dire human needs. For example, the United Nations estimates that 150 million Africans are chronically hungry and tens of millions suffer from thirst or contaminated water supplies as a result of the current drought situation.

Against the 12 million metric ton need projection for 1983-1984, total planned food aid in cereals from donor countries was approximately 9 million tons. Of this total, the United States expected to contribute approximately 6 million tons.* (See Table 2 for the level of P.L. 480 assistance.) To sustain current consumption levels or improve diets, donor countries must greatly increase the quantity of food assistance in the short term and heighten efforts to assist developing countries in improving their own agricultural production efforts over the long term. Furthermore, where population growth increases at a faster rate than agricultural production growth, and food import foreign exchange requirements increase to meet the higher demand, the effect is to reduce imports of other goods—including investment goods for development.

Abundant global cereal stocks and low world prices should set the stage for a reversal of declining per capita consumption in medium and low-income importing countries. But, because of severe limitations on the ability of developing regions to finance needed purchases, record high cereal supplies remained out of the reach of many of the poorest countries.

U.S. AGRICULTURE

The productivity of the U.S. farm sector has been phenomenal. For various reasons, however, it has resulted in billions of dollars of government outlays, large surpluses, and low farm incomes. To accept expensive production controls, low farm income, and reduced competitiveness of U.S. agricultural commodities in world markets, rather than use our agricultural abundance to help meet the needs of the world's hungry, is ironic for a country with a long established tradition of humanitarian concern for those less fortunate and a philosophy of rewarding personal efforts and productivity gains rather than penalizing success.

Before the 1970s, the U.S. farm sector was not a major participant in world food markets. Agricultural exports were only 10 percent of farm cash receipts in 1950 and 14 percent in 1960. By 1980, however, exports amounted to 30 percent of total cash receipts. Today, the production from four acres of every ten is destined for foreign markets. Overall, at least one-third of the total production capacity of U.S. agriculture produces for foreign markets.

*NOTE:
Increases in P.L. 480 funding during FY 1984 permitted total shipments of about 6.5 million tons.

TABLE 1:
Cereal Import Requirements and Food Aid Needs to Support Consumption for 1983-1984

		Import Requirements		Food Aid Needs	
	(in thousand tons)	Status Quo[a]	Nutrition Based[b]	Status Quo[a]	Nutrtion Based[b]
Africa and Middle East	Angola	311	302	71	62
	Benin	86	0	46	0
	Burundi	0	8	0	8
	Cameroon	183	302	0	119
	Cape Verde	53	45	28	22
	Central African Republic	30	103	26	99
	Chad	80	395	75	390
	Comoros	30	62	18	50
	Congo	81	83	16	18
	Djibouti	36	NA	0	NA
	Egypt	7,714	4,019	3,317	0
	Equatorial Guinea	4	NA	3	NA
	Ethiopia	532	2,354	450	2,272
	Gambia	0	0	0	0
	Ghana	247	538	166	458
	Guinea	188	449	77	338
	Guinea-Bissau	36	41	25	30
	Kenya	318	1,080	215	977
	Lebanon	613	769	77	232
	Lesotho	325	263	259	197
	Liberia	137	110	62	35
	Madagascar	400	203	372	175
	Malawi	27	160	0	132
	Mali	165	780	129	743
	Mauritania	162	208	116	162
	Mauritius	148	137	12	1
	Morocco	1,481	1,658	200	377
	Mozambique	669	1,272	484	1,087
	Niger	180	152	143	115
	Rwanda	58	55	58	55
	Senegal	350	477	0	68
	Sierra Leone	77	58	27	7
	Somalia	355	293	284	222
	Sudan	224	501	224	501
	Swaziland	113	105	95	87
	Tanzania	450	816	394	759
	Togo	61	135	44	118

SOURCE:
World Food Aid Needs and Availabilities, 1983, USDA, Economic Research Service, July 1983.

NOTES:
a) To maintain current consumption levels based on per capita intake of food staples at levels reported over last four years.
b) To raise per capita intake of staples to levels associated with FAO's recommended minimums.

(continued)

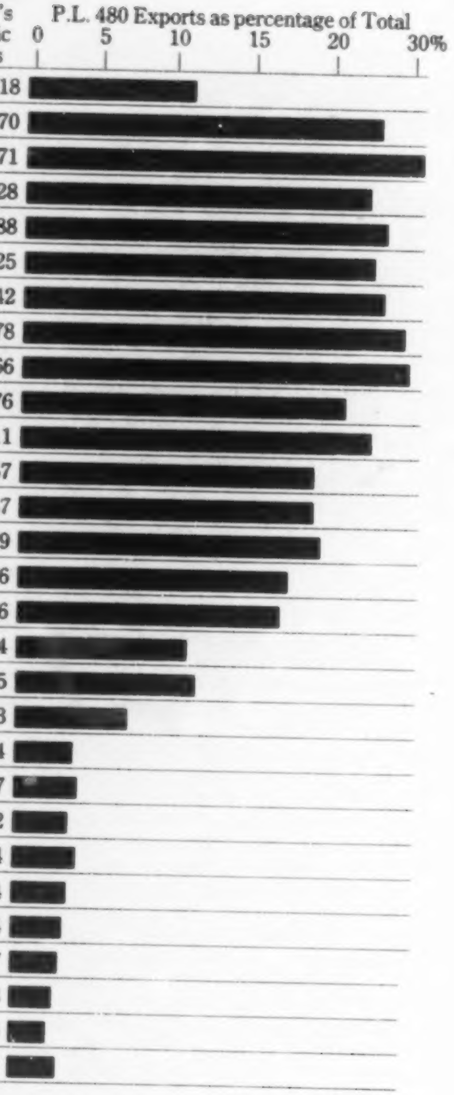
		Import Requirements		Food Aid Needs	
	(in thousand tons)	Status Quo[a]	Nutrition Based[b]	Status Quo[a]	Nutrition Based[b]
Africa and Middle East (continued)	Tunisia	957	723	0	0
	Uganda	0	506	0	502
	Upper Volta	38	300	6	267
	Yemen Arab Republic	544	504	179	139
	Yemen, PDR	221	252	21	52
	Zaire	288	1,227	51	990
	Zambia	275	569	73	368
	Subtotal	18,247	22,014	7,837	12,234
Asia	Afghanistan	125	144	101	121
	Bangladesh	1,256	6,132	1,085	6,045
	India	0	9,805	0	8,239
	Indonesia	2,329	0	297	0
	Kampuchea	123	253	94	224
	Laos	55	63	0	0
	Nepal	0	854	0	854
	Pakistan	0	0	0	0
	Philippines	1,122	1,366	382	626
	Sri Lanka	783	1,090	83	390
	Vietnam	1,352	2,018	1,173	1,838
	Subtotal	7,145	21,725	3,215	18,337
Latin America	Bolivia	590	703	333	445
	Colombia	517	0	0	0
	Costa Rica	107	74	0	0
	Dominican Republic	327	398	0	80
	Ecuador	342	417	72	172
	El Salvador	219	290	138	208
	Guatemala	129	81	0	0
	Haiti	221	449	94	321
	Honduras	103	181	6	80
	Jamaica	450	380	133	64
	Nicaragua	40	0	0	0
	Peru	1,320	1,645	559	884
	Subtotal	4,365	4,618	1,335	2,254
	Total	29,757	48,357	12,387	32,825

It is now widely recognized that for the U.S. agriculture sector to be continuously operated near an acceptable capacity level, the foreign market share must be maintained and expanded. Export growth convinced American farmers that continued expansion of foreign markets is crucial to their economic well-being. It is similarly critical to the agribusiness community, which also expanded its facilities and earnings during the export expansion period of the 1970s. This entire group—farmers, labor, and the agribusiness sector—now has a vital stake in U.S. international policies.

Despite the small percentage of Americans actively engaged in farming, the agriculture sector in the United States, including farmers, agribusiness,

TABLE 2:
P.L. 480 Exports from 1955-1983

	(billions of U.S. dollars)		
	Total Agricultural Exports	Total P.L. 480 Exports	1,000's Metric Tons
1955	$3.1	$0.4	3,418
1956	3.5	1.0	10,070
1957	4.7	1.5	14,271
1958	4.0	1.0	9,228
1959	3.7	1.0	11,488
1960	4.5	1.1	14,325
1961	4.9	1.3	16,342
1962	5.1	1.5	18,778
1963	5.1	1.5	17,366
1964	6.1	1.4	16,776
1965	6.1	1.6	18,411
1966	6.7	1.3	18,157
1967	6.8	1.3	13,957
1968	6.3	1.3	14,579
1969	5.7	1.0	9,996
1970	6.7	1.1	10,936
1971	7.8	1.0	9,834
1972	8.0	1.1	9,905
1973	12.9	1.0	7,373
1974	21.3	0.9	3,314
1975	21.6	1.1	4,827
1976	22.1	0.9	6,652
1977	24.0	1.1	6,434
1978	27.3	1.1	6,094
1979	32.0	1.2	6,284
1980	40.5	1.3	6,067
1981	43.8	1.3	5,893
1982	39.1	1.1	5,696
1983	34.8	1.2	6,192


P.L. 480 Exports as percentage of Total

SOURCE:
U.S. Department of Agriculture.

and retail food operations, is responsible for over 20 percent of the U.S. GNP and 22 percent of U.S. employment.

In 1982, U.S. farmers contributed over $71 billion to the GNP. By the time this was consumed, other sectors of the industry added $556 billion to its value, in effect generating $8 for every dollar's worth of product from the farming sector. Assets in agriculture amount to nearly $1 trillion, an amount equal to almost 90 percent of the combined assets of all manufacturing corporations in the United States. The value of farm assets, with the economic activity generated by farm products flowing through the economic system, makes the agriculture and food system the nation's largest industry and employer.

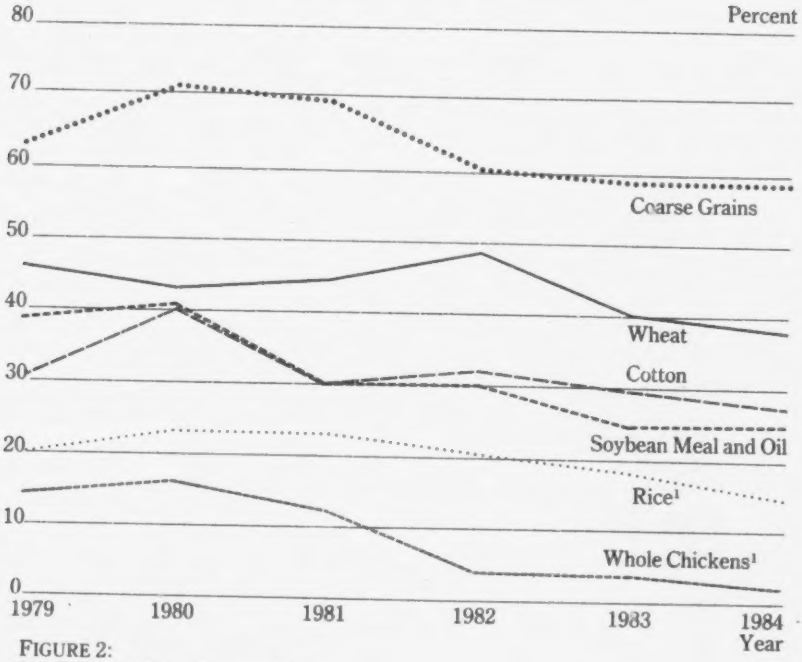
In 1982, American consumers spent over $300 billion for food, about 15 percent of personal disposable income. This share is much less than the share spent for food in the United Kingdom, France, Japan, and virtually all other developed countries. The tremendous growth in productivity of the U.S. agriculture and food system has freed billions of dollars of consumer income for the purchase of other goods and for savings and investment.

U.S. agricultural exports consistently set new value and volume records through the 1970s, but peaked in 1981 and have declined since then. In FY 1983, exports fell to $34.8 billion, 21 percent below the record high. This resulted primarily from a slackening in demand brought about by the worldwide recession, the severe debt crisis, strong appreciation of the dollar placing our products at a competitive disadvantage, the increased use of export subsidies by our competitors, and abundant harvests elsewhere in the world. While some recovery in exports is expected this year, the decline surfaced longer term troublesome problems for U.S. trade.

Hope of achieving the full potential of expanded markets for agriculture, with resulting benefits for the United States and developing country economies, hinges on whether or not we can achieve a truly market-oriented world trading system. In recent years, we have seen competitors increase exports while employing predatory trade practices to protect their domestic markets and exploit foreign ones. Many of these countries have artificially stimulated a higher level of production to promote agricultural exports than their domestic resource base would justify. Many developing countries have also attempted to achieve agricultural self-sufficiency, often supported by import substitution policies of development institutions in the past, which resulted in the inefficient use of increasingly scarce resources.

Most important, other exporting nations with abundant supplies compete fiercely for the available markets, frequently employing practices not available to U.S. exporters. The most direct of these is the use of export subsidies to penetrate markets, most notably by the European Economic Community (EEC). Another is the use of concessional financing, primarily mixed or blended credits which, by reducing interest rates, effectively reduce the cost of products to the importer. (These competitor subsidies accounted for $950 million, or 13 percent of the drop in U.S. agricultural exports from 1981 to 1983.) Our farmers thus now compete against the national treasuries of other countries. Such measures are used less when markets are expanding rapidly, but their adverse effect on U.S. agricultural exports becomes pronounced in slow growth periods. Given the outlook for slower market growth in the future, they can be expected to be a persistent concern in such a trade environment. (See Figures 1 and 2.)

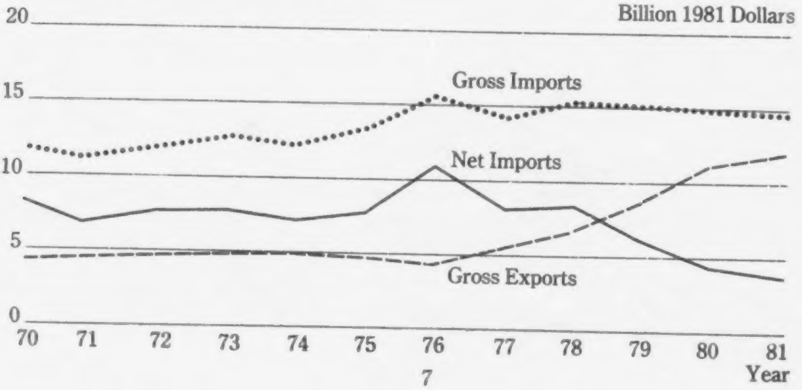
FIGURE 1:
U.S. Share of World Trade,
Selected Commodities



¹Calendar Year

SOURCE:
U.S. Department of
Agriculture, 1984.

FIGURE 2:
EC Trade in Major Commodities
Under the Common Agricultural Policy*



*Meat, Dairy, Sugar, Grains, Oil Seeds, and Non-Grain Feed Ingredients.

SOURCE:
U.S. Department of
Agriculture, 1984.

ADDRESSING THE THIRD WORLD DEBT CRISIS AND FOOD AID NEEDS

The P.L. 480 Food for Peace program should be at least doubled to help avert starvation, alleviate poverty and malnutrition, expand developing country agricultural markets, and support private sector growth.

Discussion: In the short term, food aid can contribute to meeting the gap between food supplies available in developing countries and unmet food requirements, particularly in lower income countries. There is the strong possibility that the developing world will face a major food shortage within a decade—far greater even than the present shortage in Africa. We need to significantly increase our P.L. 480 program to help avert this crisis.

An economy cannot hope to improve if the vast majority of its people are near starvation or if most of its budget is expended on importing food supplies for subsistence. With our abundant resources and well-deserved image as a humanitarian nation, we should be at the forefront of the relief effort in Africa and elsewhere in the world.

We recommend a significant dollar increase in the P.L. 480 program, to at least double its current level in 1985.* This increase should be keyed to meeting needs and averting starvation. Although the quantity of food provided by a doubling of the funds available for P.L. 480 will depend on the level of prices, it is currently estimated that commodity prices will rise only slightly over the next five years. The additional funds will, therefore, provide approximately 6 million metric tons of commodities each year from FY 1985 to FY 1989, bringing total OECD donor country food aid to approximately 15 million metric tons.

A significant increase in P.L. 480 will help meet critical food needs, signal the intention of the United States to meet these needs through official food aid, and provide significant benefits to the U.S. economy while strengthening the long-term ability of developing countries to meet their own needs.

Provision of substantial food aid would also provide some debt burden relief because large donated food supplies could free up some foreign exchange for debt retirement purposes. This is especially true if other donor countries are encouraged to increase their contributions by a comparable amount.

We recognize the concern that large-scale increases in food aid could serve as a disincentive to local production. Therefore, as an important component of the expanded program, appropriate assurances must be obtained during the agreement negotiation process that policies will be adopted to maintain domestic producer prices where they are adequate and increase producer prices where they are not adequate incentives for domestic production. Sufficient safeguards must also be in place to assure that additional quantities will not disrupt commercial markets or exceed the absorptive capacity of the local distribution infrastructure or of program implementing agents. AID should consider establishing a program to provide short-term financing to help developing countries address these constraints wherever they preclude the programming of additional food aid.

ADDRESSING EMERGENCY FOOD AID NEEDS

Additional mechanisms must be provided to respond quickly to emergency food aid needs.

☐ Flexibility to use the emergency provisions of the Food Security Wheat Reserve Act should be increased.

☐ Flexibility to use Commodity Credit Corporation borrowing authority should be increased.

Discussion: In addition to greatly increasing the size of the U.S. food assistance program, additional flexibility

*NOTE: Reference to a doubling of the P.L. 480 program is based on the approximately 6 million ton level originally approved for FY 1984 and planned for FY 1985 at the time the Task Force developed this recommendation. Subsequent increases in the program, which are expected to raise FY 1985 shipments to about 8 million tons, were not considered in the Task Force analysis.

must be provided to address critical food aid needs in a timely manner. The establishment of the $50 million Special Presidential Fund would be a major step toward meeting this objective. However, more must be done. In particular, we recommend increasing the flexibility to use the emergency provisions of the Food Security Wheat Reserve Act. This Act was designed, in part, to provide additional flexibility under P.L. 480 to meet emergency humanitarian food needs resulting from natural disasters. However, this authority has never been used. Even when substantial emergency food needs exist and P.L. 480 emergency reserve funds are extremely limited, AID is not able to use the Act to provide immediate relief because Congress requires that supplemental funding be sought first. While the Task Force supports the current requests for supplemental funding for P.L. 480 to provide emergency food assistance, we do not believe starving people should have to wait until the U.S. legislative process can be completed. Rather, agreement should be reached between the Administration and Congress on providing additional flexibility to use the wheat reserve whenever extraordinary needs arise, with costs to CCC reimbursed through subsequent appropriations, whether regular or supplemental.

Because the wheat reserve may have limited usefulness when disaster strikes countries that are not traditional wheat consumers, CCC should also have the flexibility to address emergency needs through its borrowing authority. While an unallocated reserve of P.L. 480 funds is maintained for such purposes, too often it is insufficient so that our response to disasters results in shifting commodities away from previous commitments to voluntary agency food donation programs. It is extremely important that the U.S. Government not shift commodities away from voluntary agencies. The United States and the President need the authority to send food to any developing country in the world threatened by drought or famine beyond current budgetary limits on regular P.L. 480 programs. Once disaster strikes and the President declares a state of emergency, food aid should start and be justified in supplemental appropriation requests. Such aid would be temporary, ending when the crisis has been adequately addressed.

AGRICULTURAL PRODUCTIVITY IN DEVELOPING COUNTRIES

U.S. food assistance should be used more effectively as an incentive for developing countries to adopt policies that promote reliance on market forces and the local private sector to increase agricultural production.

☐ The authority to accept local currency payments under Title I should be restored.

☐ Guidelines for invoking the debt-forgiveness provisions of Title III agreements should be liberalized.

☐ A revolving fund to finance private enterprise projects should be established with P.L. 480 repayments.

Discussion: Recognizing the primary importance of recipient government policies to agricultural development, the U.S. Government has for many years required developing countries to take certain "self-help" measures as a condition of P.L. 480 Title I agreements. These include measures to promote agricultural production, research and development, and to create a favorable environment for private enterprise and investment. In negotiating agreements, the U.S. Government should require firmer commitments to adopt policy changes that will facilitate the establishment and development of self-sustaining private enterprise.

To gain greater leverage for policy changes affecting the private agricultural sector, the President should ask Congress to restore the flexibility to make Title I sales for local currency.

Originally, P.L. 480 provided for concessional sales in exchange for local currencies. These U.S.-owned local currencies were then used to finance mutually acceptable development projects. Later, the law was changed to require dollar rather than local currency payment but with concessional credit terms attractive to the recipient country. Local currencies are still generated under such agreements through sale of the food in the marketplace, but they are owned by the recipient government which, in turn, has a dollar obligation to the U.S. Government. How the local currency generations are used depends largely upon the effectiveness of U.S. negotiations at the time of entering into the concessional sales agreement.

To gain more leverage in negotiating policy reforms, Title III was later added to P.L. 480. It provides a "debt-forgiveness" incentive for all or part of the P.L. 480 agreement. The debt-forgiveness provision under Title III is to be exercised only where LDCs accept and carry through on significant policy initiatives. When the debt-forgiveness provision is activated, the recipient government is not required to repay the U.S. loan either in dollars or in local currency. Because Title III programs may offer a greater incentive to host governments to negotiate policy initiatives, additional flexibility to invoke the debt forgiveness provisions of this title should also be established. The availability of alternative financing arrangements under P.L. 480, from Title I local currency to longer term Title III agreements, provides a "shopping basket" flexibility for considering the needs and terms most suitable to a developing country at any given time.

A program to use some of the Title I, P.L. 480 dollar repayments for private enterprise development would provide needed foreign exchange to the economies of recipient countries as well as additional supplies of capital for investment in private sector agricultural development projects. (These repayments total about $400 million per year.) Although the authority to establish a revolving fund already exists, legislation to use P.L. 480 receipts for such a fund is needed. Such a revolving fund could complement the recently formed PRE Private Sector Revolving Fund and could be linked to the proposals for the establishment of an American Agricultural Development Corporation (ADC) and increased aid to other ICIs discussed elsewhere in this report.

PRIVATE ENTERPRISE DEVELOPMENT

The private sector provisions of P.L. 480 must receive much more emphasis than is currently the case.

☐ A major portion of local currencies generated by the P.L. 480 program should be used for direct investment in private enterprise projects.

☐ The USDA Agricultural Cooperator Program should receive increased local currency funding under P.L. 480 authority.

☐ Private Trade Entity agreements should be reinstituted.

☐ The role of private voluntary agencies should be strengthened.

—Administrative procedures should be relaxed.

—Multiyear commitments should be made.

—Additional authority to generate local currencies under Title II should be granted.

—Participation of PVOs in Title III programs should be encouraged.

☐ Lead responsibility for Title I should rest with USDA's Foreign Agricultural Service.

☐ Program implementation should be freed from many of the current legislative constraints and administrative encumbrances.

—Extend Title III authority to all U.S. foreign aid recipient countries.

—Maintain availability of Title I to needy countries regardless of whether or not they meet the poverty criteria of the International Development Association (IDA).

—Distribute funds to the private sector in a timely manner.

—Keep prescribed activities to a minimum.

—Promote the eligibility of activities further along in the farm-to-market chain for P.L. 480 support.

☐ The cost of cargo preference requirements should be removed from the P.L. 480 budget.

Discussion: Essential as some public sector projects may be to provide necessary infrastructure, the absence of entrepreneurship, management skills, and enterprise-specific capital accumulation critically limit the development process and seriously inhibit the potential of public sector investment. Therefore, most U.S. food assistance resources should be channeled to private companies to stimulate private business, rather than to government for public projects. Recipient country governments need to understand it is in their own self-interest to channel this assistance into the private sector directly or through indigenous relending institutions.

Entirely aside from improved food availability, perhaps the greatest contribution P.L. 480 has made to economic development has been the generation of local currencies from sales in the marketplace that were reinvested in order to stimulate the country's own agricultural economy. To the extent that such local currencies are effectively used in the agricultural sector, they lessen future needs for foreign aid. To the extent that they are utilized through the country's private sector, they offer greater hope of sustainable progress in their own agribusiness economy.

A major portion of the recipient-owned local currencies generated from local sales of P.L. 480 commodities and local currencies acquired by the U.S. Government through Title I sales under the restored local currency authority should be used for loans to the private sector. The emphasis should be on agricultural and agribusiness development and on facilities to handle U.S. food, feed, and fiber imports. These loans should be made through local financial intermediaries that have the business expertise to effectively evaluate private sector projects and to meet the needs of small and medium scale businesses, expecially in rural areas.

The Task Force notes, in particular, the valuable contribution the USDA Agricultural Cooperator Program has made in stimulating private enterprise in developing countries. Local currencies generated under P.L. 480 were originally available for this joint U.S. Government-private-sector-funded market development effort. The government portion of funding is currently provided through dollar appropriations that have constituted a decreasing proportion of total program costs over the past 15 years. Substantially increasing the use of P.L. 480 local currencies to support Agricultural Cooperator program activities, such as those designed to improve livestock feeding and feed and food processing capabilities, is precisely the type of private sector activity for which a larger proportion of U.S. food assistance resources should be used.

P.L. 480 legislation specifically authorizes direct negotiation of Title I agreements with U.S. and foreign private trade entities (PTEs). Due to the program's multiple objectives, increases in commodity prices, and limited funding availability, the authority for PTEs has not been used in recent years. Reinstituting the PTE program could significantly increase private sector involvement in P.L. 480 assistance efforts and greatly enhance the program's impact on the development of self-sustaining private enterprise in developing countries. In the past, the PTE program effectively stimulated private enterprise activities in developing countries and increased the participation of the private sector in U.S. development assistance efforts. For example, the 1967-1972 PTE agreement with the Korea Silo Company resulted in the construction and equipping of the grain terminal facility at the port of Inchon, Korea. The agreement with Purina-Korea, Inc. established facilities for the production of animal feeds. The PTE program has also been effectively used to increase the funding capabilities of intermediate credit institutions lending to agricultural cooperatives.

A timely advantage of the PTE program is its ability to cut across national boundaries. This program could be very useful in addressing regional problems in light of the success of the Administration's Caribbean Basin Initiative and the need to develop additional tools for such regional approaches to development.

One segment of the U.S. private sector that has played a critical role in promoting agricultural development and meeting humanitarian needs in developing countries is the Private Voluntary Organizations (PVOs). The role of PVOs in U.S. Government food assistance programs, however, is often restricted by the extensive program review process, restrictive administrative procedures, and lack of multiyear program commitments.

Further, the ability of PVOs to identify agricultural development opportunities independently, within the context of a particular country's development priorities and needs, has been restricted by the overall program priorities established by AID in Washington. When a PVO program can be designed to address a high priority problem in the recipient country, it is often easier to both reach amiable working arrangements with host country institutions and gather additional resources for the development effort. This is particularly relevant to the promotion of private enterprise, which has traditionally received scant attention due to the overriding relief or emergency assistance orientation of Title II programs. A private sector emphasis will provide not only today's sustenance but also the wherewithal to meet humanitarian needs over the longer term by promoting market economies and self-sustaining private enterprise activities.

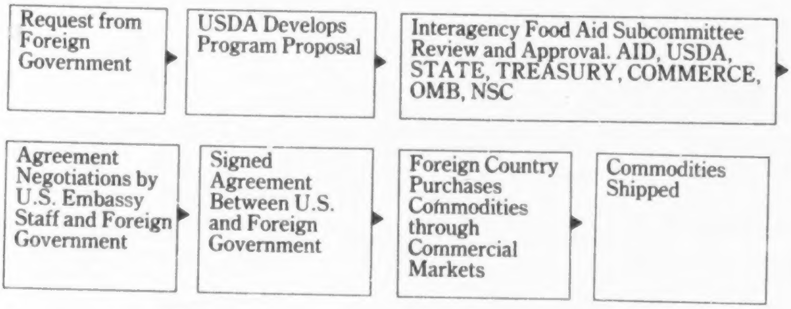
The wealth of experience among PVOs in rural areas could also be effectively used in Title III programs. To date, there has been considerable difficulty in identifying the appropriate mechanisms to achieve the intended objectives of Title III programs. Encouraging the PVOs to take an active role in implementing Title III programs could reduce many of the difficulties currently experienced by the program.

However, a commitment to private sector promotion and enhancement of market-oriented activities often depends on the continued availability of resources. If we wish to encourage the commitment of resources and risk-taking by the private sector in developing countries (in this case primarily rural agricultural producers), multiyear commitments of resources under our food assistance programs become even more necessary than under traditional food assistance programs.

U.S. food donation programs should have more leeway to generate local currencies to implement projects and increase the participation of indigenous private enterprise in development efforts. Under Title II of P.L. 480, authority to generate local currencies is severely limited. Restrictions on the ability to generate development funds under this program, however, in many cases preclude the implementation of extremely effective programs involving the participation of both the United States and developing country private sector entities and the development of self-sustaining private enterprises in the local economy. Such funds are particularly critical to those least developed countries that have undertaken significant reforms in the agriculture sector, but lack the funds to carry out specific programs and projects to implement the new policies.

Interdepartmental procedures for P.L. 480 program implementation are extremely complicated and unduly burdensome and need to be streamlined. (See Figures 3 and 4.) In part, the current situation stems form the long list

FIGURE 3:
P.L. 480—Title I/III Program Flowchart


Request from Foreign Government
USDA Develops Program Proposal
Interagency Food Aid Subcommittee Review and Approval. AID, USDA, STATE, TREASURY, COMMERCE, OMB, NSC
Agreement Negotiations by U.S. Embassy Staff and Foreign Government
Signed Agreement Between U.S. and Foreign Government
Foreign Country Purchases Commodities through Commercial Markets
Commodities Shipped

SOURCE:
USDA, 1984

Agency Objectives:

USDA
Market Development
Surplus Disposal

AID
Economic Development
Humanitarian

STATE
Foreign Policy

TREASURY
Financial Review

OMB
Budgetary Overview

COMMERCE
Trade

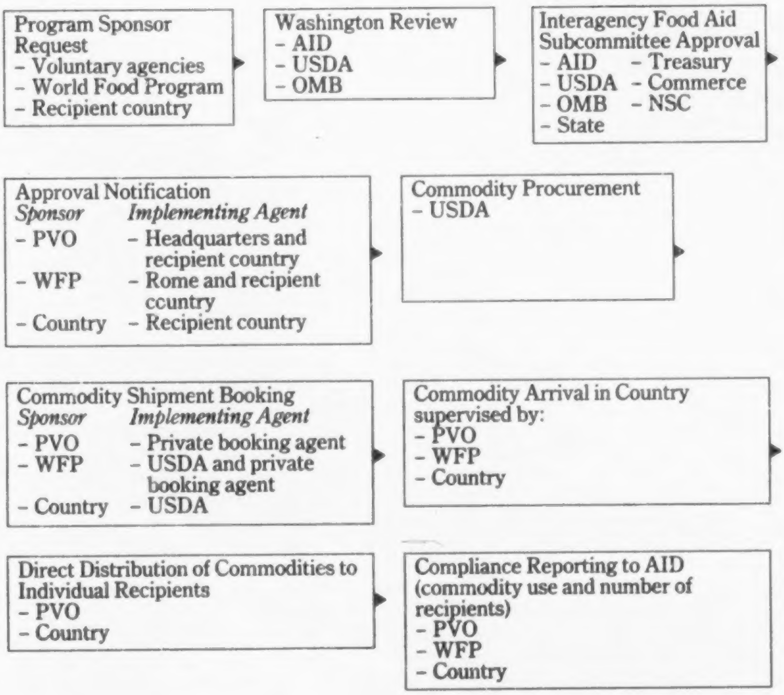
NSC
National Security

of conditions mandated by Congress that each project must satisfy. The list has grown over the years with the annual process of authorizations and appropriations. This is further aggravated by operating procedures established within the implementing agencies, which often includes a committee system for project review and approval as well as for other administrative decisions. This approach is also employed at the field level, putting additional time-consuming burdens on those responsible for operating the program.

USDA should be made the primary U.S. Government entity responsible for implementing the private enterprise development objectives of U.S. food assistance programs. This is because of its greater experience with private enterprise programs and requirements, its ability to identify projects likely to improve the recipient country's ability to meet food needs through increased agricultural production, knowledge of more efficient farm-to-consumer distribution systems, and appreciation of the benefits of expanded private enterprise participation in the agricultural sector. With lead responsibility at USDA, the program would be used less for short-term political objectives and more for sound agricultural policy change and productive agribusiness activities.

In addition to a change in overall administrative responsibility, several legislative constraints need to be relaxed. For example, the Title III program is currently limited by law to the poorest developing countries. Frequently, these countries are not the best ones in terms of potential gains from policy reform. Extension of the Title III authority to all recipients of U.S. foreign aid would provide wider latitude to deal with policy initiatives for strengthening international private enterprise where

FIGURE 4.
Title II Program Development and Implementation



Program Sponsor Request
- Voluntary agencies
- World Food Program
- Recipient country

Washington Review
- AID
- USDA
- OMB

Interagency Food Aid Subcommittee Approval
- AID
- USDA
- OMB
- State
- Treasury
- Commerce
- NSC

Approval Notification

Sponsor	*Implementing Agent*
- PVO	- Headquarters and recipient country
- WFP	- Rome and recipient country
- Country	- Recipient country

Commodity Procurement
- USDA

Commodity Shipment Booking

Sponsor	*Implementing Agent*
- PVO	- Private booking agent
- WFP	- USDA and private booking agent
- Country	- USDA

Commodity Arrival in Country supervised by:
- PVO
- WFP
- Country

Direct Distribution of Commodities to Individual Recipients
- PVO
- Country

Compliance Reporting to AID (commodity use and number of recipients)
- PVO
- WFP
- Country

Agency Responsibility:	Primary program responsibility rests with AID. Operational responsibilities for Title II activities are carried out by three types of program sponsors: private voluntary agencies (PVOs); intergovernmental organizations, primarily the UN/FAO World Food Program (WFP); and recipient governments (Country).

TABLE 3:
Benefits Achieved from an Increase in P.L. 480

SOURCE:
U.S. Department of Agriculture, Office of Budget and Program Analysis, 1984.

NOTES:

[a] Additional funds required to increase P.L. 480 by $1 billion in FY 1984 and to bring total funding level to $3 billion in each of next five years.

[b] Cost of Title I commodities will be repaid over 40 years.

[c] Cost of Title II commodities and shipping plus Title I Ocean Freight Differential. The Title I OFD is the additional cost of using U.S. bottoms in compliance with U.S. cargo preference requirements, which are not repaid by the recipient country.

[d] Projections were made assuming that target prices were frozen at current levels and assuming target prices continued to escalate. Savings in price support programs result from the additional U.S. exports under P.L. 480 that reduce the cost of loans, deficiency payments, storage, and other expenses associated with the programs.

[e] A $1 billion increase in P.L. 480 in FY 1984 was the maximum possible at the time the analysis was performed.

[f] Based on the planned FY 1985 program level of approximately six million tons at the time of the analysis. Does not include subsequent increases raising FY 1985 shipments to an estimated eight million tons.

(in $ millions)	FY 84[e]	FY 85[f]	FY 86	FY 87	FY 88	FY 89	Total
Cost of Increase in P.L. 480							
Total Cost[a]	1,000	1,339	1,306	1,272	1,238	1,203	7,358
Less recoverable[b]	665	884	862	840	817	794	4,862
Net Cost[c]	335	455	444	432	421	409	2,496
Title I OFD	85	120	118	114	111	108	656
Title II	250	335	326	318	310	301	1,840
Savings in price support program[d]							
Frozen targets	218	382	541	866	1,120	982	4,109
Escalated targets	218	382	666	1,305	1,200	1,422	5,193
Net Benefit (Cost)							
Nonrecoverable P.L. 480 less frozen targets	(117)	(73)	97	434	699	573	1,613
Nonrecoverable P.L. 480 less escalated targets	(117)	(73)	222	873	779	1,013	2,697

the payout would be greater.

The Title I program is also subject to the current restriction on the proportion of funds (only 25 percent) that can be allocated to countries with per capita incomes above the IDA poverty level. Removal of this restriction would meet several objectives.

In the first place, the conditions required for effective private enterprise development are more likely to exist in middle-income developing countries. Thus, the majority of potentially successful projects will be found in middle-income countries with more established commercial markets. Furthermore, the opportunities for expanding markets for agricultural commodities, both indigenously produced and imported, are likely to be greater in middle-income countries.

The second important objective is providing some relief from excessive debt burdens during the current foreign exchange liquidity crisis. In recent years, many of the lower income countries were not viewed as good credit risks and, therefore, much of the development assistance provided was in the form of grants. Middle-income countries, on the other hand, were extended significant amounts of financing based on their growth potential and perceived creditworthiness. It is primarily the middle-income countries that could benefit from the debt relief aspects of the increased P.L. 480 funding levels.

Finally, many of the operational procedures required for P.L. 480 program implementation should be streamlined, from those pertaining to project approval to those dealing with the mechanics of commodity shipment.

In particular, the current cargo preference requirements of P.L. 480 significantly complicate the administration of the program and greatly diminish the funding available to finance commodity purchases (by more than $100 million this year alone). The additional P.L. 480 funding could provide significant additional quantities of food if cargo preference costs were not paid with P.L. 480 funds. Merchant marine support should be funded separately based on the merits of such support. It should not reduce funds available for U.S. foreign assistance efforts or complicate other program operations. At the very least, the cost of cargo preference compliance should be identified and paid for as a separate line item in the budget, rather than through the budgets of other programs. At best, cargo preference requirements should be eliminated entirely, particularly under P.L. 480, and replaced with a more cost-effective direct subsidy program for the merchant marine.

Summary

Certain forms of foreign assistance and some programs designed to stimulate trade are extremely cost-effective. They achieve their objectives at little net cost, while providing significant benefits to the U.S. economy. The best foreign assistance programs, not only leverage resources to the maximum extent possible, but also provide maximum benefits at minimum cost.

In times when commodity prices are low and large quantities of U.S. agricultural commodities cannot be absorbed in commercial markets, food assistance is one of the most cost-effective forms of foreign assistance. For illustrative purposes, the Task Force examined the impact of doubling the P.L. 480 funding level over the next five years. Such an increase would provide approximately 6 million tons of food to help meet critical food needs and allow some improvement in the currently inadequate diets of millions of people. Furthermore, this would result in a benefit-cost ratio of nearly 2:1, nonrecoverable costs totaling only $2.5 billion compared to projected price support program savings of $4 to $5 billion (See Table 3.) Such a favorable benefit-cost ratio does not include additional benefits to be derived from expanded commercial market opportunities for U.S. agricultural exports, the impact of a higher level of exports on general economic activity, or the employment opportunities generated by the increased economic activity.

For example, doubling program funding would generate approximately $1.6 billion in additional economic activity, with benefits to the U.S. Treasury of approximately $300 million in revenue, $80 million in unemployment savings. It would also create approximately 20,000 additional jobs.

Given the importance of agriculture to the United States and the developing world and the multitude of benefits the program offers to both the U.S. and developing country economies, a much larger share of total U.S. foreign assistance should be in the form of food assistance. Rather than paying our farmers to idle productive land, our agricultural abundance should be used to meet the critical food and development needs of less developed countries.

This action brief can also be found as an appendix to the report to the President. If you wish a copy of the entire report, please contact:

Agency for International Development
Task Force/Private Enterprise
Room 339 SA-8
Washington, D.C. 20523
Telephone: (703) 235-2844
(Until February 1, 1985)

(After February 1, 1985)
Agency for International Development
SER/MO/PM
Room B-927NS
Washington, D.C. 20523

Selected International Prices

Item	April 8, 1986		Change from a week ago	A year ago
ROTTERDAM PRICES 1/	$ per MT	$ per bu.	$ per MT	$ per MT
Wheat:				
Canadian No. 1 CWRS-13.5%.	N.Q.	--	--	187.00
U.S. No. 2 DNS/NS: 14%....	172.00	4.68	+3.50	172.00
U.S. No. 2 S.R.W. 10/	115.00	3.13	-2.00	170.00
U.S. No. 3 H.A.D..........	167.00	4.55	+4.00	181.00
Canadian No. 1 A: Durum...	N.Q.	--	--	189.75
Feed grains:				
U.S. No. 3 Yellow Corn....	113.00	2.87	-1.00	136.00
Soybeans and meal:				
U.S. No. 2 Yellow........	213.40	5.81	-4.80	246.00
Brazil 47/48% SoyaPellets	186.00	--	-7.00	151.00
U.S. 44% Soybean Meal....	185.00	--	-2.00	150.00
U.S. FARM PRICES 3/				
Wheat....................	117.94	3.21	+1.47	126.02
Barley...................	N.Q.	N.Q.	N.Q.	85.89
Corn.....................	N.Q.	N.Q.	N.Q.	105.12
Sorghum..................	82.45	3.74 2/	--	97.00
Broilers.................	1051.59	--	-.22	1061.51
EC IMPORT LEVIES				
Wheat 5/.................	144.95	3.94 ✓	-10.90	60.20
Barley...................	145.40	3.16 ✓	-1.60	57.65
Corn.....................	128.00	3.25 ✓	-9.40	52.40
Sorghum..................	132.10	3.36 ✓	-12.00	69.55
Broilers 4/ 6/ 8/.........	301.00 ✓	--	-7.00	163.00
EC INTERVENTION PRICES 7/ 9/				
Common wheat(feed quality)	185.20	5.04	-2.15	145.85
Bread wheat (min. quality)	196.70	5.35	-2.40	155.05
Barley and all other feed grains.......	185.20	--	-2.15	145.85
Broilers 4/ 6/...........	1311.00	--	-10.00	980.00
EC EXPORT RESTITUTIONS (subsidies)				
Wheat	85.50 ✓	2.33 ✓	--	N.A.
Barley....................	N.A.	N.A.	--	27.10
Broilers 4/ 6/ 8/.........	220.00 ✓	--	-5.00	96.00

1/ Asking prices in U.S. dollars for imported grain and soybeans, c.i.f., Rotterdam. 2/ Hundredweight (CWT). 3/ Five-day moving average. 4/ EC category--70 percent whole chicken. 5/ Reflects lower EC export subsidy--down to 20.00 ECU/100 bag effective 9/14/83 from 22.50 ECU/100 bag set in 2/83. 6/ F.o.b. price for R.T.C. broilers at West German border. 7/ Reference price. 8/ Reflects change in level set by EC. 9/ Changes may be due partly to exchange rate fluctuations and/or ECU payments. 10/ July shipment. N.A.=None authorized. N.Q.=Not quoted. Note: Basis May delivery.

Senator WILSON. Mr. Chairman, I make my apologies to Mr. Hay in particular. I will take his testimony and read it. I have to depart.

Before doing so, I wanted to say to Mr. Andreas that I seldom find myself in as complete agreement with the views expressed by a witness as I have with his this morning. I have read, incidentally, the attachment to your own testimony, the column by Bill Neikirk in the Chicago Tribune, which expresses a great deal of my own frustration and I think there's a great deal of historical accuracy and wisdom in his observations.

But I suppose the one point that struck a very responsive chord was your conclusion in which you said that continuing to preach platitudes about free trade will not achieve it. I could not agree more and I think that belatedly we are finally coming to the realization in this administration that we had better be far more aggressive and assertive of the rights of American farmers to compete and to enjoy fair competition for export markets.

But I agree that there has been a great deal of academic insistence upon a free trade situation that has long since ceased to exist and the only way we can hope to get back free trade is to be much, much tougher than we have been in dealing with our trading partners.

So I commend you on your statement, sir.

Senator ABDNOR. I just have to add, Senator, I would echo what you said, except I guess I come to complete disagreement when he says, "We must be careful not to be too critical of them." I think the time has come when we can hardly go along and say all these things and know they are very meaningful and yet say we have to be nice to them. They have to know what this is doing to world trade. It's something that was done years ago and they're going to have to recognize it.

Mr. Hay, we kept you waiting a long time, and being an old wheat producer myself, I welcome you to the committee. I'm a little bit like Senator Wilson. We have too many other things going on. I'm supposed to be in the Senate Appropriations Committee and I see Senator Symms has returned but I'll stay for a little while if I can and hear your testimony because of my great interest in what you do.

STATEMENT OF JACK HAY, PRESIDENT, OREGON WHEAT GROWERS LEAGUE, ON BEHALF OF THE NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. HAY. Thank you, Senator.

Mr. Chairman and Senator Abdnor, I am pleased to take the opportunity today to comment on agricultural trade practices of the European Community, and their effects on the domestic wheat industry. My name is Jack Hay, and I am president of the Oregon Wheat Growers League, which is affiliated with the National Association of Wheat Growers, and I'm a wheat farmer from The Dalles, OR.

U.S. wheat exports over the previous two seasons have been seriously undermined by a strong U.S. dollar, continued lack of economic growth in many importing countries, and increased use of export subsidies by U.S. competitors. Export volume for the current marketing year is down by over 40 percent from the corresponding period last year, and last year's volume was down by 41 percent from the previous year, as well.

The 1985 farm bill authorized a number of export programs designed to offset U.S. commodity trade disadvantages. These include the export enhancement, or export PIK Program, the Credit Guarantee and Intermediate Credit Programs, the targeted Export Assistance Program, and continued operation of the Food-for-Peace Program. Certain of these programs have very specific purposes, while others were established to increase U.S. competitiveness in a more general manner.

European Community trade practices were the principal consideration in the adoption by Congress of the export enhancement program in early 1985, and later in the farm bill. The subsidized wheat flour sale to Egypt in 1983, the precursor to the broadened export PIK Program, had successfully dislodged subsidized European wheat flour in that market. But market share was lost when the United States was unwilling to renew the program in Egypt. It was recognized by Congress that a sustained effort would be necessary to convince the Europeans, as well as other predatory exporters, that subsidization would be systematically countered with competitive credits and purchase incentives by the U.S. Government. Export PIK, with minimum annual program expenditures for USDA to realize, was the product of that conviction.

The program has been flawed from its beginning, by the very restrictive rules of additionality, equitable market share, and market targeting applied to the program by the administration. USDA was advised by its export PIK advisory committee that the program would never function adequately if it were not broadened to include more countries and to thwart all unfair trade practices, and not just those of the European Community. Since receiving that advice, however, the USDA has not called for another meeting of the committee. A broader and more aggressive implementation of export PIK, as well as blended credit and targeted export assistance initiatives, have also been encouraged by the National Association of Wheat Growers.

At the same time, we realize that such programs provide only short-term leverage to hold markets which are threatened by subsidized exports. More fundamental solutions must be sought through direct negotiation with the Europeans, and through an improved GATT dispute resolution mechanism. Ultimately, structural reform of the common agricultural policy aimed at reducing overproduction of exported commodities is the only lasting solution. Costs of maintaining the CAP are huge, and in one respect, at least, the United States is gaining ground against it. The dollar has declined decisively against the EEC currency this year, adding some $1.5 billion to the cost of maintaining the restitution system of the CAP.

Last year's EEC wheat export restitutions were zero, while currently they are approximately $90 per ton, and may have to move even higher when world wheat prices decline in the upcoming U.S. marketing year. With soft wheat prices in world markets now averaging under $150 per metric ton, we can see that the Community is prepared to subsidize at leat two-thirds of the cost of its export wheat. But the CAP is essential to the unity of the EEC, and they are willing to bear a great deal of cost to uphold it. Therefore, we must assume that the basic CAP structure will remain firmly in place, and turn our attention to stepping up diplomatic efforts, as well as forceful trade retaliation where necessary, to at least protect our own interests in world trade.

The Congress is currently debating the nature of negotiating authority it will provide the President in a new round of multilateral negotiations, as well as specific negotiating objectives to be achieved. The issues of agricultural export subsidies and the quantitative restrictions must have priority, we believe, and should be examined in the same framework as manufactured goods. Dispute resolution procedures within the GATT have proved meaningless for the wheat industry, and have led, out of frustration, to increased efforts to combat EEC subsidies with comparable U.S. subsidies.

For example, the failure of a GATT panel to make a conclusive decision on a U.S. wheat flour subsidy complaint, despite years of litigation, contributed to the USDA's decision to implement the subsidized wheat flour sale to Egypt in 1983. USTR filed a similar complaint earlier this year, but, realistically, any resolution that may be forthcoming will occur years from now. It is our hope that dispute resolution procedures can be improved and streamlined during the upcoming trade round. But, in the meantime, the U.S. wheat industry must seek more immediate remedies for the EEC's $90 per metric ton wheat restitution now in place.

The recent inclusion of Spain and Portugal into the CAP has increased the ongoing friction between the United States and the European Community. The U.S. wheat industry will be directly affected by new quantitative restrictions on Portugese grain imports from within the Community. The United States supplies virtually 100 percent of the wheat import needs of Portugal, but the Portugese will now be required to purchase 15.5 percent of its wheat imports from EEC members. Over the longer term, Spain can be expected to contribute to the Community's wheat surplus, creating additional impetus to the CAP's aggressive export practices. With the EEC support price for Durum wheat more than 30 percent higher than the domestic price for such wheat in Spain, Spanish production will undoubtedly increase significantly.

USDA research shows, in fact, that over a period of perhaps 5 years Spain may well increase world grain production by 11 million tons. USDA reached this conclusion by observing that the United Kingdom's grain yields increased dramatically after entering the EEC in 1978. In only 3 years, the United Kingdom became a net grain exporter, while she had been a net importer before becoming fully covered by the CAP. The Spanish will likely increase their grain yields by a similar factor in response to EC production incentives.

We applaud the U.S. reaction to the trade restrictions that went into effect March 1, with the entry of these two countries into the Common Market. The United States threatened the imposition of immediate and equal penalties to compensate U.S. interests for the potential loss of $1 billion in farm sales caused by the EEC restrictions. The force of this response has led both sides to the negotiating table to avoid open conflict. Ultimately, in order for trade negotiations to be successful, more gain must be perceived from a negotiated agreement than from the continuation of the status quo. The United States must prepare to take a tough stance against the EC in order to assure their willingness to negotiate in good faith.

Thank you very much, Mr. Chairman, for your attention, and I will be pleased to answer any questions that you may have.

Senator SYMMS [presiding]. Thank you very much, and I want to again apologize to all the witnesses. I'm going to carry your statements with me and carefully read all of them. I do have just a couple of questions that we'd like to ask for the record. I'm going to try to ask the privae sector people the questions first. If I don't get to those of you from USTR and USDA, we'll send you the questions and can get them back if that's all right.

Mr. Andreas, in your prepared statement you state, "That because of the EEC export and production practices, U.S. farmers are losing about $6 billion annually in export markets and about $1 billion more because of depressed prices."

Mr. ANDREAS. I corrected that when I read it. It should have said "many billions more."

Senator SYMMS. Billions more?

Mr. ANDREAS. Yes.

Senator SYMMS. OK. If this trend continues, what do you estimate the losses are going to be first off; and do you think the trend is going to continue?

Mr. ANDREAS. Well, the trend is going to continue until such time as the United States and the EEC can get together and coordinate their policies and make some changes in their course of action. But it's very hard to give you a number, Senator, because it depends on so many other things, like the weather all around the world is a big factor—unpredictable things.

However, let me just take the case of sugar along. There was an economic study made by an independent economic entity which I have which indicates very clearly that at the present time the EEC dumping of sugar is costing the Third World $6.4 billion a year in income by depressing the prices of sugar.

Senator SYMMS. That they desperately need.

Mr. ANDREAS. Yes.

Senator SYMMS. How about the effects of EEC dumping on our sugar program?

Mr. ANDREAS. Well, our sugar program, entirely because of the EEC dumping, we have a sugar program which gives our sugar growers and corn growers a fair price, not anywhere near as high as the EEC pays their growers.

Senator SYMMS. We consume what we produce here anyway.

Mr. ANDREAS. We consume it all. But it would cost this country enormously except for the fact that we have a program. But the only reason we need that program, sir, is because of the EEC dumping. We would rather have a free market in sugar.

Senator SYMMS. Well, now that just brings me to the next question. Do you think that anything done in the Farm Act passed last December, and signed by President Reagan, is going to gradually alleviate some of this program, or is this going to require something else—like bilateral negotiations with Canada—to iron out some of these differences?

Mr. ANDREAS. No. I think that the farm bill did make some steps forward. The BICEP Program is not as sophisticated and not as easy to use as Public Law 480. Frankly, I think we could do better with Public Law 480 than with BICEP.

Senator SYMMS. Just expand Public Law 480?

Mr. ANDREAS. Yes, and it's far more sophisticated and it wouldn't arouse all the resentment around the world because we have used it for years. So I would prefer that. Nevertheless, I would say, yes, BICEP is a step forward because compared to nothing it's terrific. What it will do is it will make many of the economists around the world more realistic because they will have to face that competition and we'll have negotiations much sooner.

Senator SYMMS. Well, Mr. Hay, you mentioned in your statement that the export PIK Program was flawed from the beginning.

Mr. HAY. Yes.

Senator SYMMS. How should those flaws be corrected, have they been corrected, and what's your viewpoint of it now?

Mr. HAY. Well, the flaws have not been corrected. In some respects, by the President reducing the moneys that are allocated or proposing to reduce the moneys that are allocated toward that program—or he has reduced that amount—we saw that implementation and broadening of the program being restricted by the amount of money that's in the program.

Further, the way to counteract that is to broaden out the targets. The targets are too channeled toward the European Community.

We saw the BICEP Program should be broad based for all of our customers and in fact we have lost some business to the U.S.S.R., for instance.

Senator SYMMS. Do you view the EEC as a potential market for any of these products for us?

Mr. HAY. Not at this point. They subsidize so heavily that we can't compete with them.

Senator SYMMS. Mr. Kay, what's your view on the similar question? If we can discover what some of these problems really are, do you have a feeling that we're making any headway? Have we done anything to correct some of these problems? Do you feel like we're going to gain or lose? And I apologize, I didn't hear your statement, but I do have it and I will read it.

Mr. KAY. I'd like to clarify one point, Mr. Chairman, in that there is no money in the farm bill or in the budget for the BICEP Program. It says that over the period of the next 3 years the Department of Agriculture shall use 1 billion dollars' worth of agricultural commodities as bonuses.

Second, we started out on a mission of spending 2 billion dollars' worth of agricultural commodities. When the Congress passed the Farm Act Amendments in 1986, because of the changes that were made in the bases and yields provisions of the act of 1985, the Congress reduced the amount of 2 billion dollars' worth of commodities to 1 billion dollars' worth of commodities. It was not a Presidential decision. He signed the bill, but the Congress reduced the amount of the commodities that we were to be using over a period of 3 years.

Now as to the matter of the flaws, it all depends, like beauty, on the eye of the beholder. We felt it was a responsible position when we announced this program early last May before the Congress had ever acted, that it must be based on three broad principles, which Mr. Hay has referred to. First, a targeted approach in that it was targeted toward those subsidizers who were taking our markets away from us.

Second, that it be geared to the concept of additionality. We felt that it was important in the operation of this program that we prove with every initiative that we announced that we would be able to use more of U.S. agricultural commodities than we would have without announcing the program because we did not want to displace any commercial sales.

Third, the other principle was that of budget neutrality and that we felt it was important for us in this time of budget tightening that we should not be guilty of spending any more than we would have if the program were not in effect, and we have tried to make it budget neutral.

I would point out that in the 30 initiatives that we have announced that it's interesting to note that the 30 initiatives and the 9 million metric tons which we have announced account for 30 percent of the wheat exports that have gone out of this country or will go out of the country this year, and that which has actually been sold represents 12 percent of all the wheat exports out of this country.

A strange thing has taken place in our exports. There was a time a few years ago when commodities moving out of this country represented only 5 percent of that which was financed by Government programs. Today, because of various problems which you mentioned in your opening statement, that percentage is now 20 percent.

Senator SYMMS. And that was necessary to compete in this Government-supported agriculture in Europe?

Mr. KAY. Yes, and it's 70 percent for wheat. So, I would not say that the program is totally flawed. Those who want an across-the-board type subsidy think it's flawed, but there are many merits to this program and, as Mr. Hay has pointed out, the restitution in the European Economic Community on wheat has gone from zero to $90 per metric ton. That hasn't been all because of the decline in the dollar because economists say that for the decline of the dollar it takes 16 quarters for the cycle to catch up with that.

One of the reasons for the increase in the restitution has been the Export Enhancement Program, EEP, in which we have successfully sold wheat in some of our old markets where we were displaced by the European Economic Community and they realized that in order to further compete they were going to have to increase their restitutions and we estimate that our Export Enhancement Program—in fact, the Secretary said this morning at breakfast that our Export Enhancement Program just as it is now will cost the European Community $1 billion this year.

Senator SYMMS. That's the point I wanted to ask Ms. Early about. A lot of times when I'm at home and talking to farmers, they say:

> Why don't we take some of the wheat that the U.S. Government already owns and has paid for—load it on a ship in Oregon and transport it to markets where the European Economic Community is attempting to under sell us. We could start auctioning it off to the highest bidder at the dock and just practically give it away?

What's wrong with doing that?

Ms. EARLY. I think in fact that is what we are doing under the Export Enhancement Program. We're bidding on wheat offers around the world in markets that USDA has targeted where we have lost sales to the European Community or are in danger of losing them. And I think it's been fairly successful so far.

Senator SYMMS. Did you want to comment on that, Mr. Andreas?

Mr. ANDREAS. Yes, I think I could make a contribution about this matter. This is not a complaint or a recommendation but an explanation.

When it was decided not to use the BICEP in a way that would help the Communist countries buy cheaper goods or not to compete with Brazil who is subsidizing everything, when that decision was made, one little thing was overlooked. The Soviets are only obligated under the international agreement to buy our wheat when it's at the world market price. When we use it for other people but not the Soviets, we're selling to other people at a lower price which brings the world price down. Then the Soviets, our biggest and our best cash customer we lose because they're not buying it from us because we won't sell it to them at the same price we will sell it to others. So it acts like an embargo. We have lost the biggest cash market and, instead, we are selling to the subsidized markets which Mr. Kay just mentioned that our subsidized percentage has gone up.

Senator SYMMS. In other words, if we want this to work, we need to hand it out around the world and clean out the bins?

Mr. ANDREAS. I think we have to face it head on and be competitive everywhere if we want it to work.

Senator SYMMS. Meet the prices?

Mr. ANDREAS. Yes.

Senator SYMMS. That's basically what I thought we were trying to do when we passed the farm bill this year, was to go out and say, "We 're taking the market and all the rest of you, if you want to do it, are going to have to be prepared to have a deep pocket."

Mr. ANDREAS. Yes, but there was heavy lobbying to shut off the Communist countries and also to stop competing with Brazil because this lobbying came from New York banks who want just to give the market to Brazil so that they can take in the cash and pay off their loans.

So actually what the bankers here are saying is:

> Let the American farmer pay off those loans. Give the market to Brazil, protect them, let them sell their soybean oil at subsidized prices way below our prices, get the cash and use it to pay off their debts.

Now that's a point of view. I'm not complaining. But that's the point of view that has prevailed. So Brazil with their subsidies are getting a preference over our farmers.

Senator SYMMS. Mr. Hay, you wanted to say something?

Mr. HAY. Yes. I wanted to comment that regionally the Pacific Northwest has not been benefiting proportionately as far as the bonus bushel concept is going. As far as the bonus bushel is concerned, that BICEP Program, we have not regionally been benefiting. In fact, this year we're looking at a storage situation where we're going to be at least 50 million bushels short to 120 million bushels short of a capacity to store the stuff. Consequently, the magnitude and the P&W of getting rid of this year's upcoming crop is fairly forceful on constraints of the infrastructure.

I think it's important when you talk about national policy to realize locally in the region the pressure that your farmers are experiencing in some measure is due to the lack of the broad based BICEP Program and not utilizing those shipments out of the Northwest.

Senator Symms. Is the BICEP Program supposed to go to our old customers like South Korea? It's not aimed at them?

Mr. Hay. I don't believe so.

Senator Symms. Well, we've sold a lot of Pacific Northwest Soft White wheat out in the Pacific Rim. Do our good old customers get the benefit of this?

Mr. Kay. The program so far, Senator, has been designed for those countries that are classified basically as developing countries, and especially in the North African countries and the Middle East where we had at one time a very successful market and where subsidizers have taken our market away.

Senator Symms. OK. Well, Ms. Early, I'm going to momentarily change the subject. Then I want to come back and ask a question about Portuguese imports on soybean oil and meal.

But when I was out of the room at the Senate Finance Committee, I happened to run into Ambassador Middendorf and he mentioned to me that, in a conversation he and I had had earlier, I had told him that my apple producers were complaining about subsidized apple juice from the European Economic Community, and he said, "We fixed that."

Can you bring me up to date on that? Have they stopped it, shut the door on it in someway? Can we do that, or can you find out for me?

Ms. Early. I think perhaps he may have been referring to the International Trade Commission. It is doing an investigation right now to see——

Senator Symms. Well, it was proven that they were subsidizing it, and somehow it's against the laws to come into this country and he said, "We closed the door on it." Is that correct?

Ms. Early. I would have to check that out, but I'm not aware of that.

Senator Symms. If you would I would appreciate it. We won't delay the hearing record. I'd like to know that and report back to one of these apple growers that complained to me. He happens to be my brother, so it's the kind of constituent that I have to be able to answer, and I'm going to see him this next week.

The question I want to get to here is really for the Trade Representative, but I'd like to ask Mr Andreas to comment on it because he's involved in this business.

In the case of quotas imposed on Portuguese imports of soybean oil and meal, what are the volumes and dollar values, in recent years, of U.S. exports of these products to Portugal? What are the quota limits that have just been imposed? The 15.5-percent minimum purchase required for grains for which the Portugese will presumably have to pay the internal European prices rather than the lower world prices would seem to amount to a special tax on Portugal imposed by other powers. How many millions or billions of dollars in higher grain costs are we talking about for the Portuguese?

Would you want to comment on that, Mr. Andreas?

Mr. ANDREAS. I'll ask Ms. Early because she happens to have it right here in accurate form.

Senator SYMMS. OK. I'm embarrassed about this, but Chairman Packwood told us all to be back at 11:45 and I'm going to have to cut this meeting pretty short. Could you answer that very briefly?

Ms. EARLY. Certainly. With regard to the oilseeds into Portugal, our exports right now are valued at about $151 million and our sunflower seed exports, which will also be caught up in these quotas, are valued at $44 million. We are exporting about 600,000 tons of soybeans to Portugal right now and we don't know exactly how these "nonrestrictive" quotas are going to affect these exports.

That's why we want to put mirror quotas of our own on so that if we do begin to suffer some damage we can cause the Community to suffer the same amount of damage in the U.S. market.

With regard to the grain imports into Portugal, one thing you should know is that Portuguese grain prices right now are higher than those in the European Community. It's kind of an odd quirk that developed in the last 2 years while they were acceding into the Community. They raised their prices significantly.

Senator SYMMS. Well, just what is the subsidy level on beef, wheat, and sugar in the European Community?

Ms. EARLY. Do you have figures on that, Mr. Kay? Let me turn it over to my colleague from FAS.

Mr. KAY. What were the questions you asked, Senator?

Senator SYMMS. What are the price subsidies? How much do they subsidize beef, for example, in Western Europe; and how much do they subsidize wheat and sugar, and at what levels?

Mr. KAY. Beef and veal in 1985 were $1.1 billion over the course of 1985.

Senator SYMMS. $1.1 billion, but what price? How much do they pay a guy to grow a bushel of wheat over in Europe? What does the farmer get for it?

Mr. KAY. I believe we'll have to supply those figures.

Senator SYMMS. Do you know, Mr. Andreas?

Mr. ANDREAS. He gets approximately $6 a bushel, but that's an approximation.

Senator SYMMS. Approximately $6?

Mr. ANDREAS. Yes.

Senator SYMMS. Well, if we could get $6 here, our wheat farmers in Idaho would do all right. They would be happy as a hog on ice and we would really have a surplus, I suppose.

Mr. ANDREAS. We don't have the beef subsidies there, but broilers is a big business and the subsidy on broilers is $220 a ton and on wheat it's $185 a ton.

Senator SYMMS. OK. That's more than the value of the wheat in the world market. OK.

I apologize and I want to thank again all of the witnesses who prepared excellent testimony for us and some of you that came from out of town. We appreciate very much your contribution to this hearing.

I simply have to apologize, but the chairman of the Senate Finance Committee, who happens to hail from my neighboring State and Mr. Hay's State, Chairman Packwood, has asked me to be back up there at a quarter to 12 and it's now 5 to 12 so I'd better get up there because we're talking about a vote that may end up 10-to-10 which will mean that the administration will be able to move forward with bilateral trade talks with Canada, so it's right down to the wire and I'd better get up there.

Thank you all very much, and the subcommittee stands in adjournment.

[Whereupon, at 11:55 a.m., the subcommittee adjourned, subject to the call of the Chair.]

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